

# Current Hawaii Economic Conditions

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Eugene Tian

Department of Business, Economic Development & Tourism  
to the

Committee on Ways and Means  
and  
Committee on Finance

January 2, 2018

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# Positive signs in the Economy

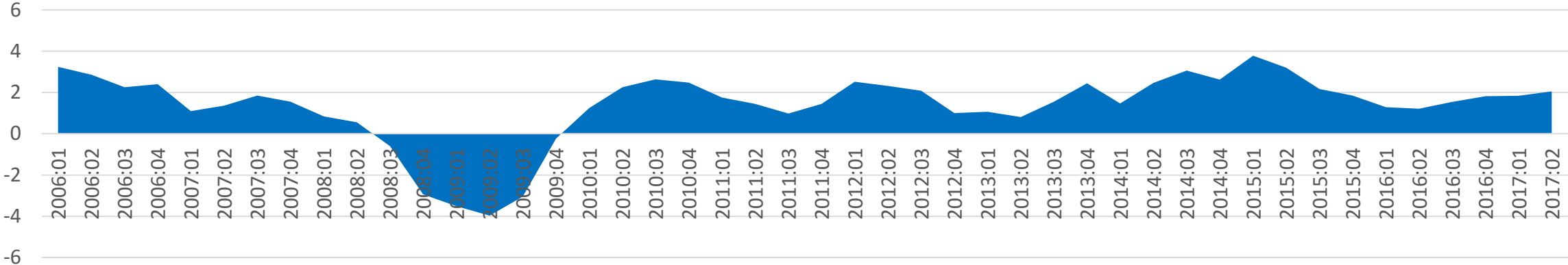
- We have the best labor market in the nation, lowest unemployment rate, record levels of labor force, employment, and job count
- All counties are fully recovered and gaining jobs
- Value of building permits issued during the first 11 months of 2017 increased, indicating construction industry will be busier in 2018
- Real estate market performing well, sales and median prices are up
- Scheduled air seat capacity will increase 8.8% during the first 10 months of 2018, leading to another record year of visitor arrivals in 2018
- TCJA will have positive impact on economic growth for both the nation and Hawaii
- Most economies in the world will have steady growth this year, U.S. growth rate will be better than last year
- Hawaii's economy continues to be on a normal growth path

# Challenges in the Economy

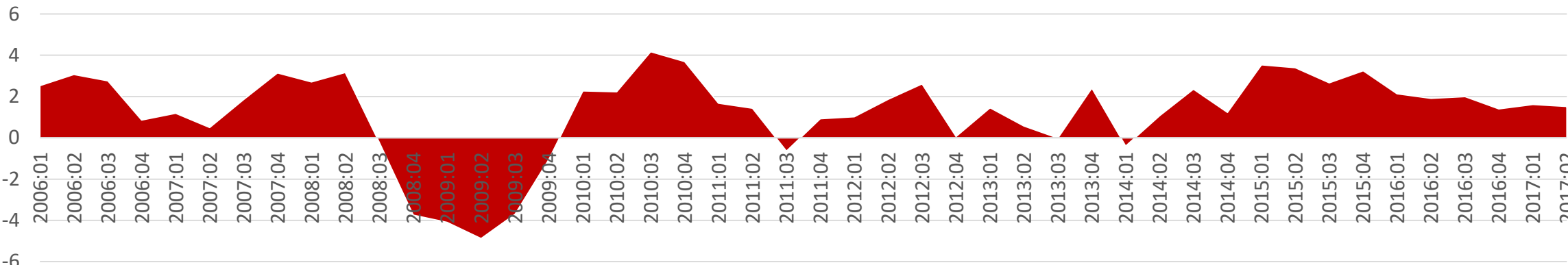
- Many Hawaii industries are still recovering
- Economic growth slower than the nation
- Higher consumer inflation rate than the nation
- General excise tax bases have been relatively flat in recent years

# Quarterly Real GDP Growth

US



Hawaii



Source: BEA

## A Historical Review of Hawaii's Economic Growth

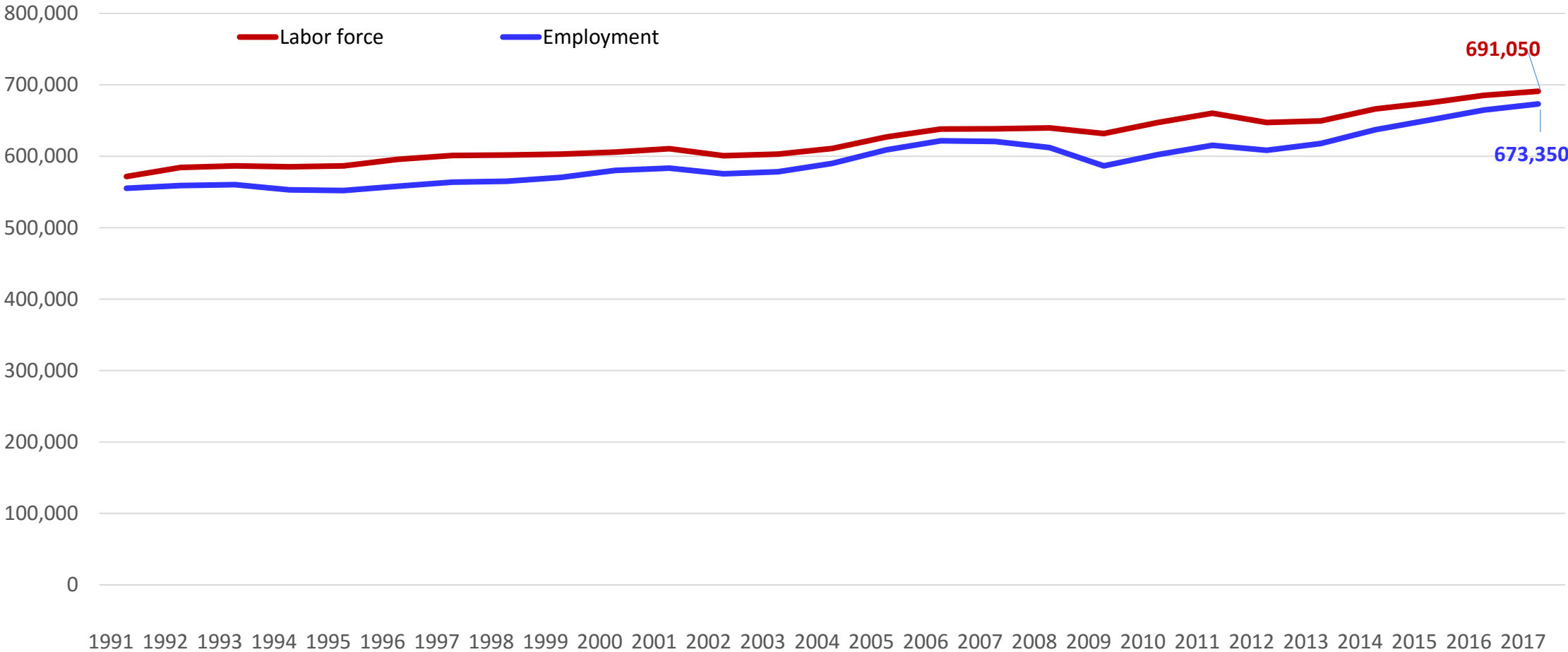
Indicator	Annual average growth, %			
	30 years, 1986 - 2016	20 years, 1996 -2016	2017	2018
Real GDP	1.8	1.6	1.7	1.5
Real personal income	1.8	2.1	1.7	1.5
Honolulu inflation rate	3.0	2.2	2.5	2.3
Non-Ag wage and salary jobs	1.3	1.0	1.0	0.9
Unemployment rate 1/	4.5	4.8	2.6	2.9
Visitor arrivals by air	1.5	1.4	4.6	2.3

1/ Average of 30 years, 1986–2016.  
Source: DBEDT

## Most of the world economies had good year in 2017 and will have steady growth in 2018

Economy	2015	2016	2017	2018
USA.	2.9	1.5	2.3	2.6
Canada	0.9	1.4	2.9	2.1
Japan	1.2	1.0	1.6	1.3
S. Korea	2.6	2.7	3.1	2.9
Hong Kong	2.4	1.9	3.4	2.5
Taiwan	0.7	1.5	2.5	2.3
China	6.9	6.7	6.6	6.3
United Kingdom	2.2	1.8	1.5	1.3
Germany	1.5	1.7	2.4	2.1
France	1.2	1.1	1.8	1.8
Eurozone	1.9	1.7	2.2	1.9
Australia	2.4	2.5	2.3	2.6
Brazil	-3.8	-3.6	0.8	2.3

# Statewide labor force & employment continue to set records

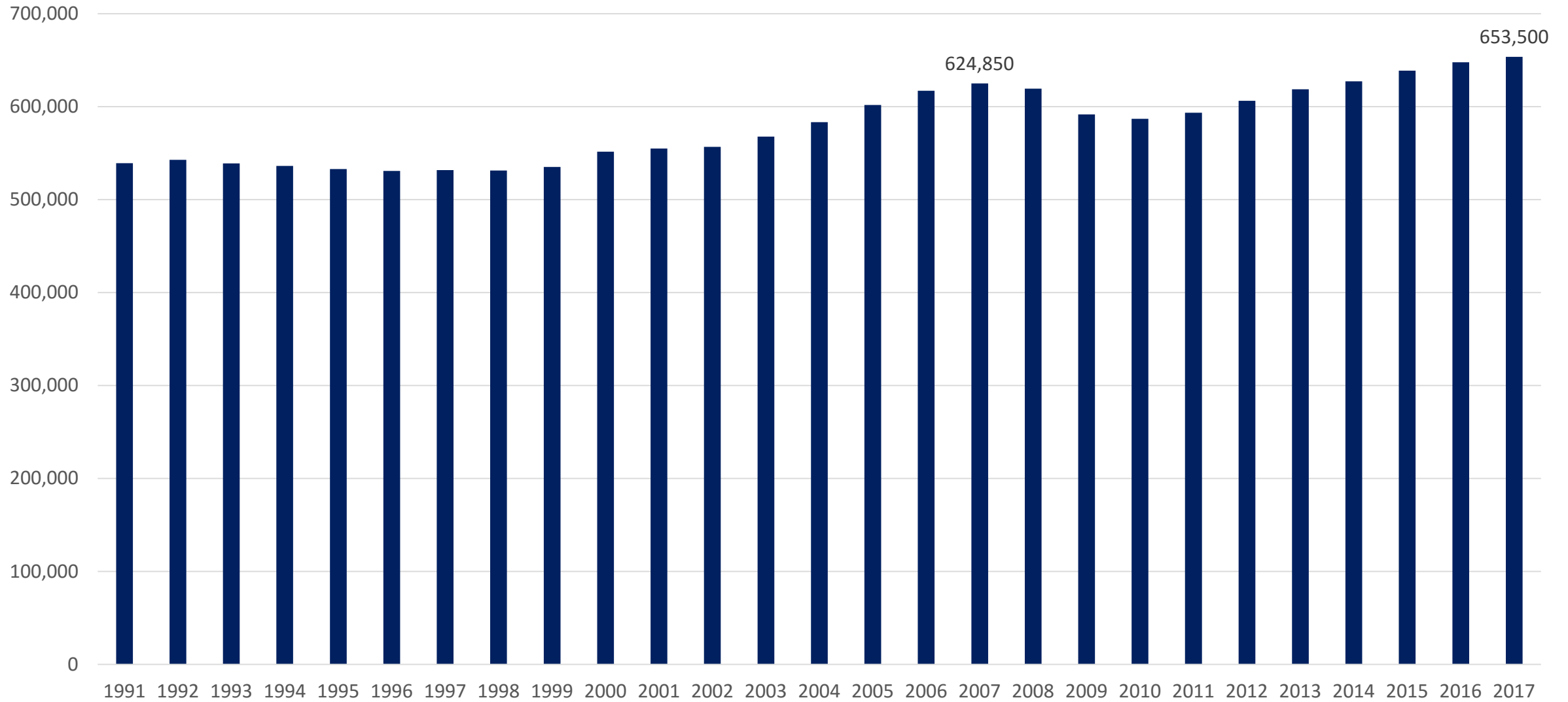


2017 are year-to-date (YTD) November averages.

Source: Hawaii State Department of Labor and Industrial Relations.



## Non-ag. payroll job count is also record setting

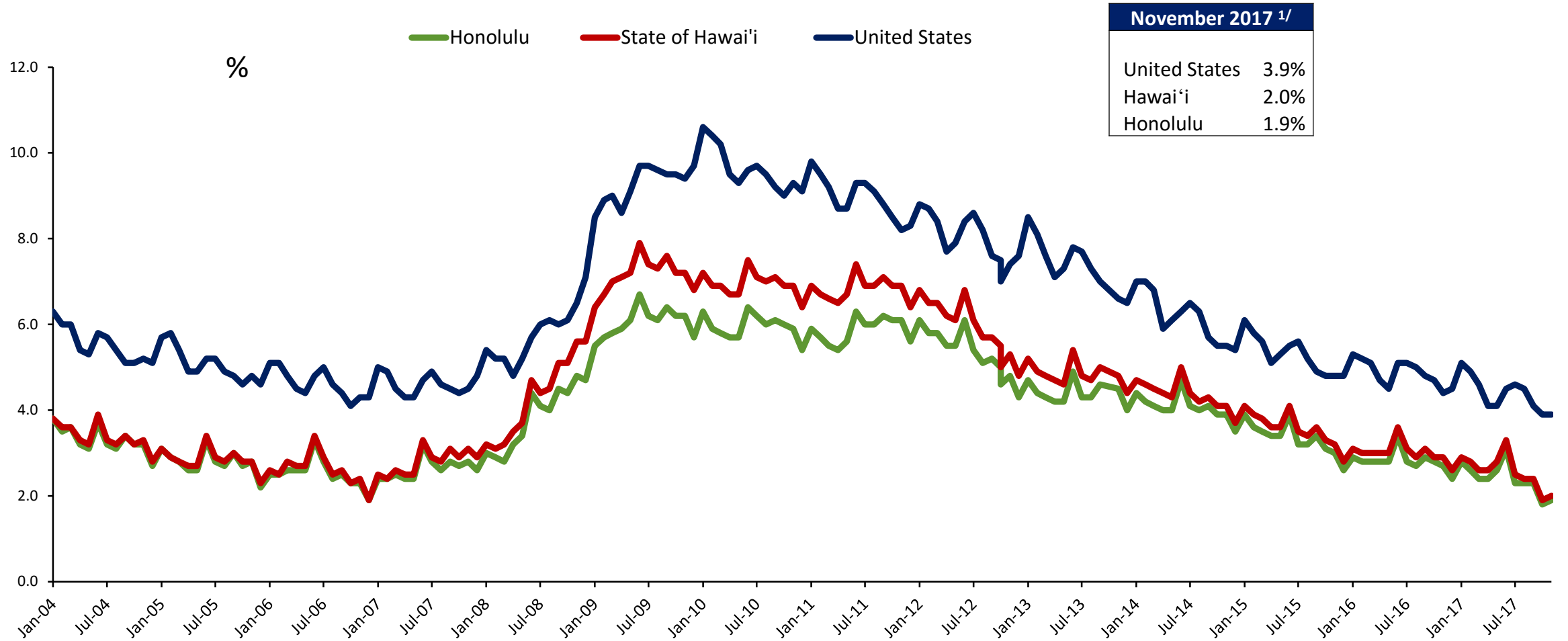


2017 is year-to-date (YTD) November average.

Source: Hawaii State Department of Labor and Industrial Relations.

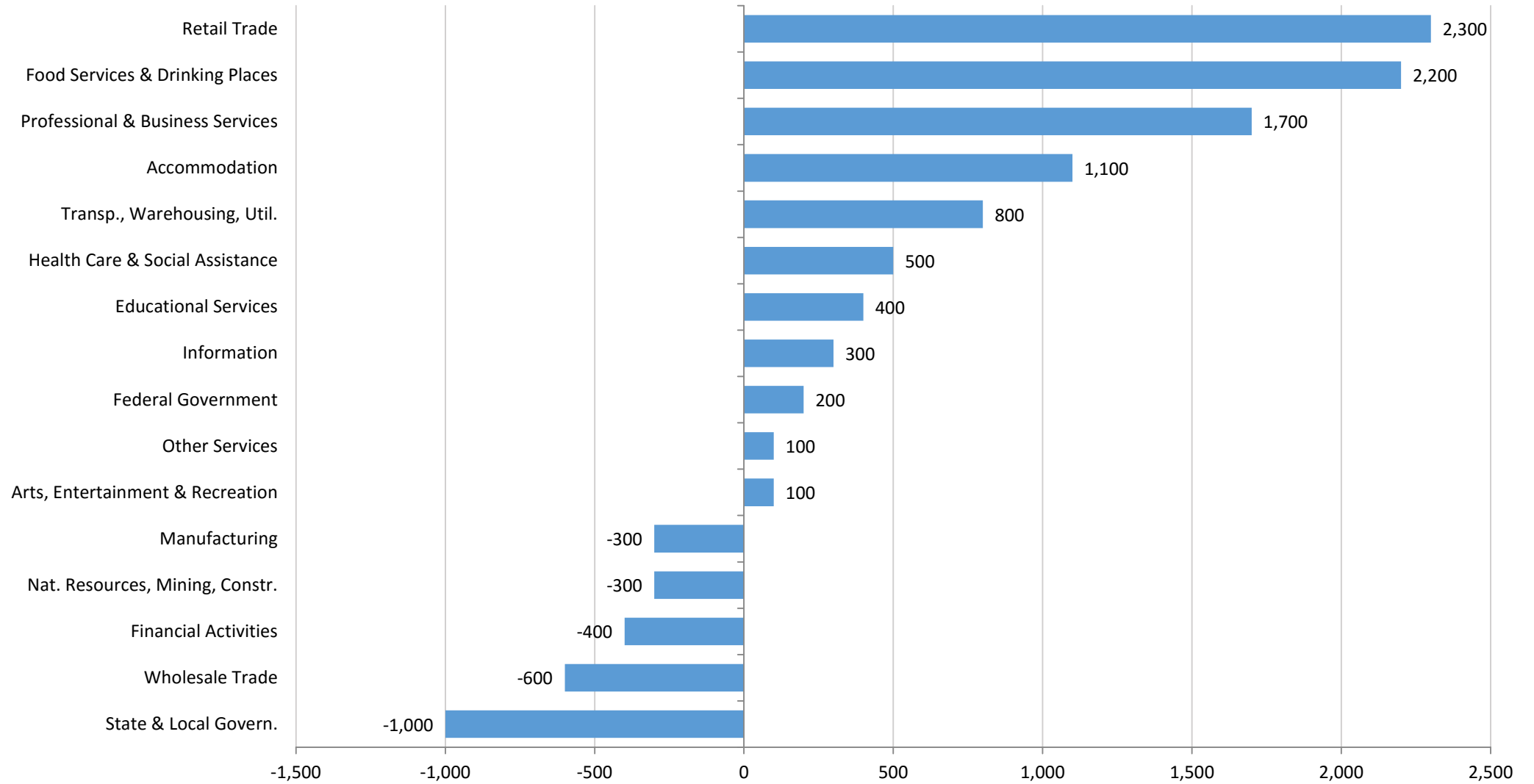


# Unemployment rate



Source: U.S. Bureau of Labor Statistics, Hawaii State Department of Labor & Industrial Relations.  
1/ Not seasonally adjusted.

## Statewide gained 7,100 non-ag payroll jobs in the 1<sup>st</sup> 11 months of 2017



Source: Hawaii State Department of Labor and Industrial Relations.

# Real Estate Sales

(% change btw. 2016-11 YTD and 2017-11 YTD)

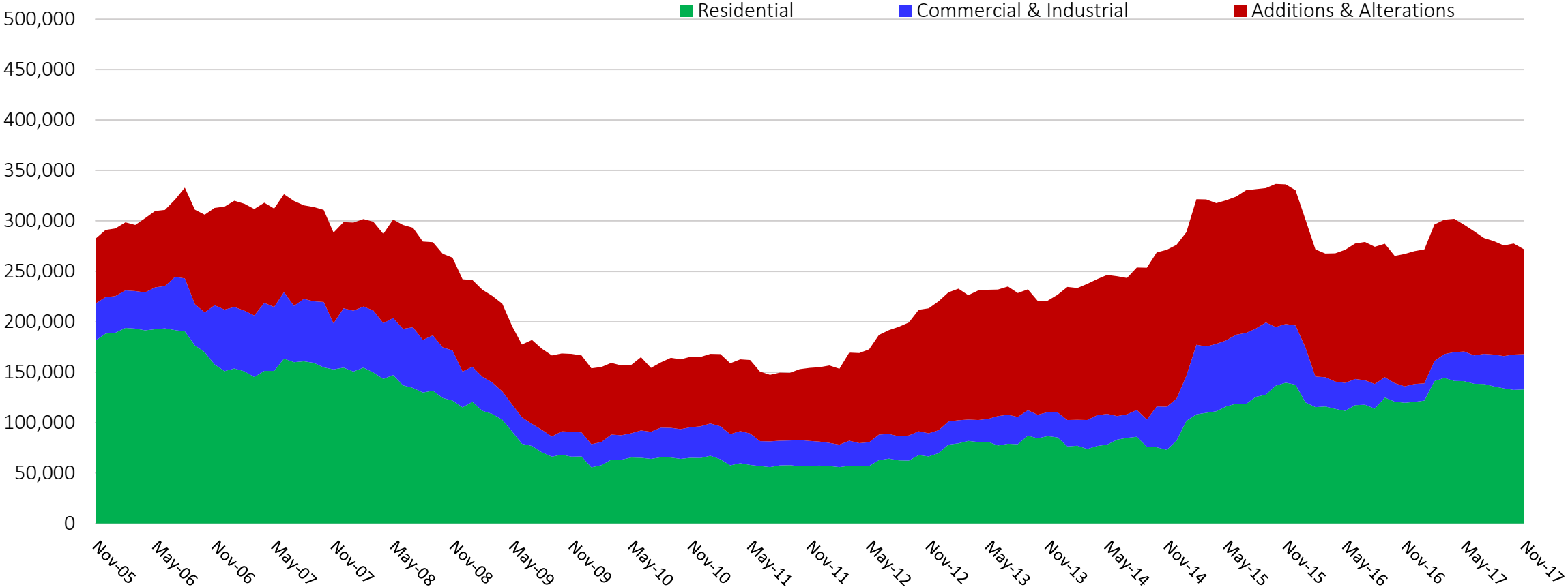
Island	Single Family Homes		Condo Homes	
	Closed sales	Median price	Closed sales	Median price
Oahu	5.8%	3.1%	7.6%	4.1%
Maui	3.3%	9.4%	10.3%	7.7%
Hawaii	8.7%	4.5%	20.6%	1.1%
Kauai	-0.8%	8.8%	20.8%	8.2%

## Median Home Prices: 2016-11 YTD and 2017-11 YTD

Island	Single Family Homes		Condo Homes	
	2016	2017	2016	2017
Oahu	\$735,000	\$758,000	\$389,000	\$405,000
Maui	\$635,000	\$695,000	\$415,000	\$447,000
Hawaii	\$335,000	\$350,000	\$307,750	\$311,250
Kauai	\$615,000	\$669,000	\$397,500	\$430,000

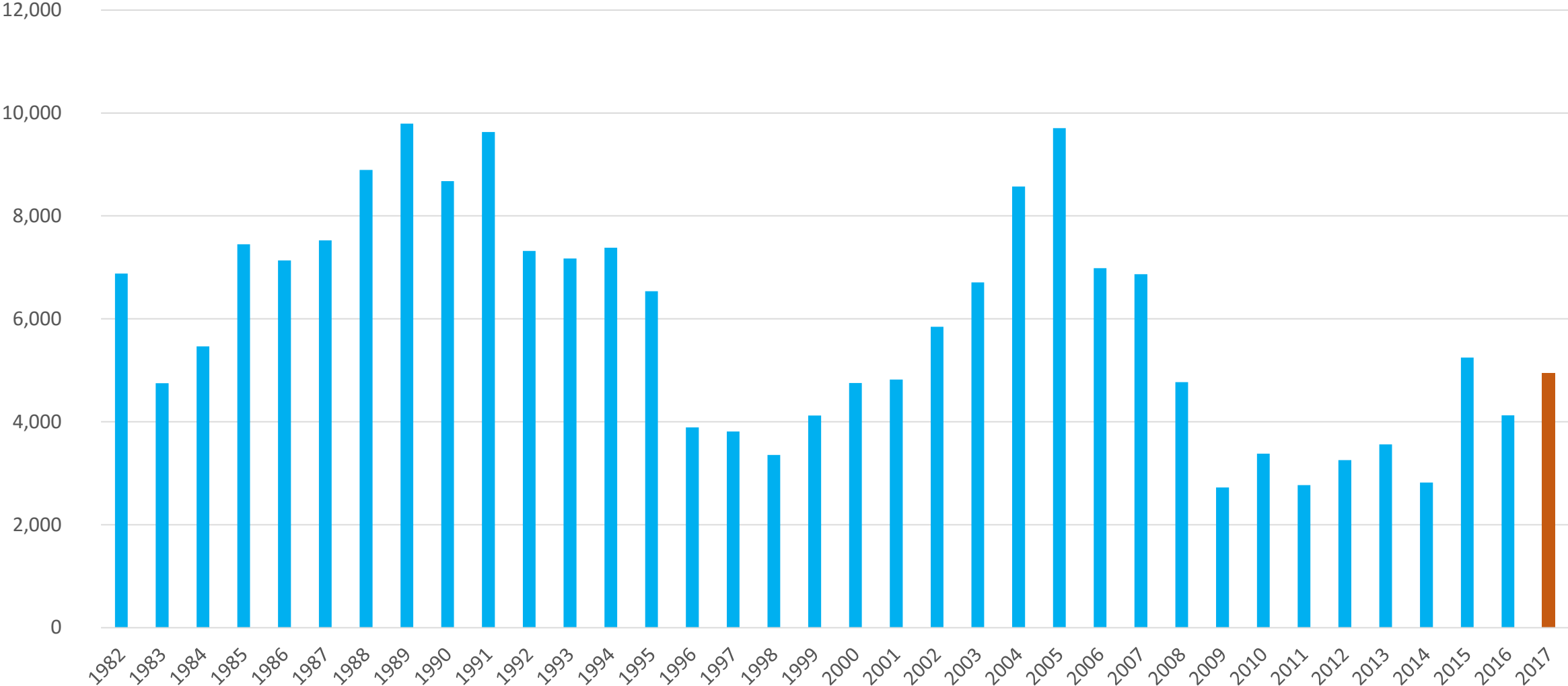
# Value of private construction permits increasing slightly in 2017

12 Month Moving Average of Building Authorization



Source: County Building Departments and U.S. Census Bureau.

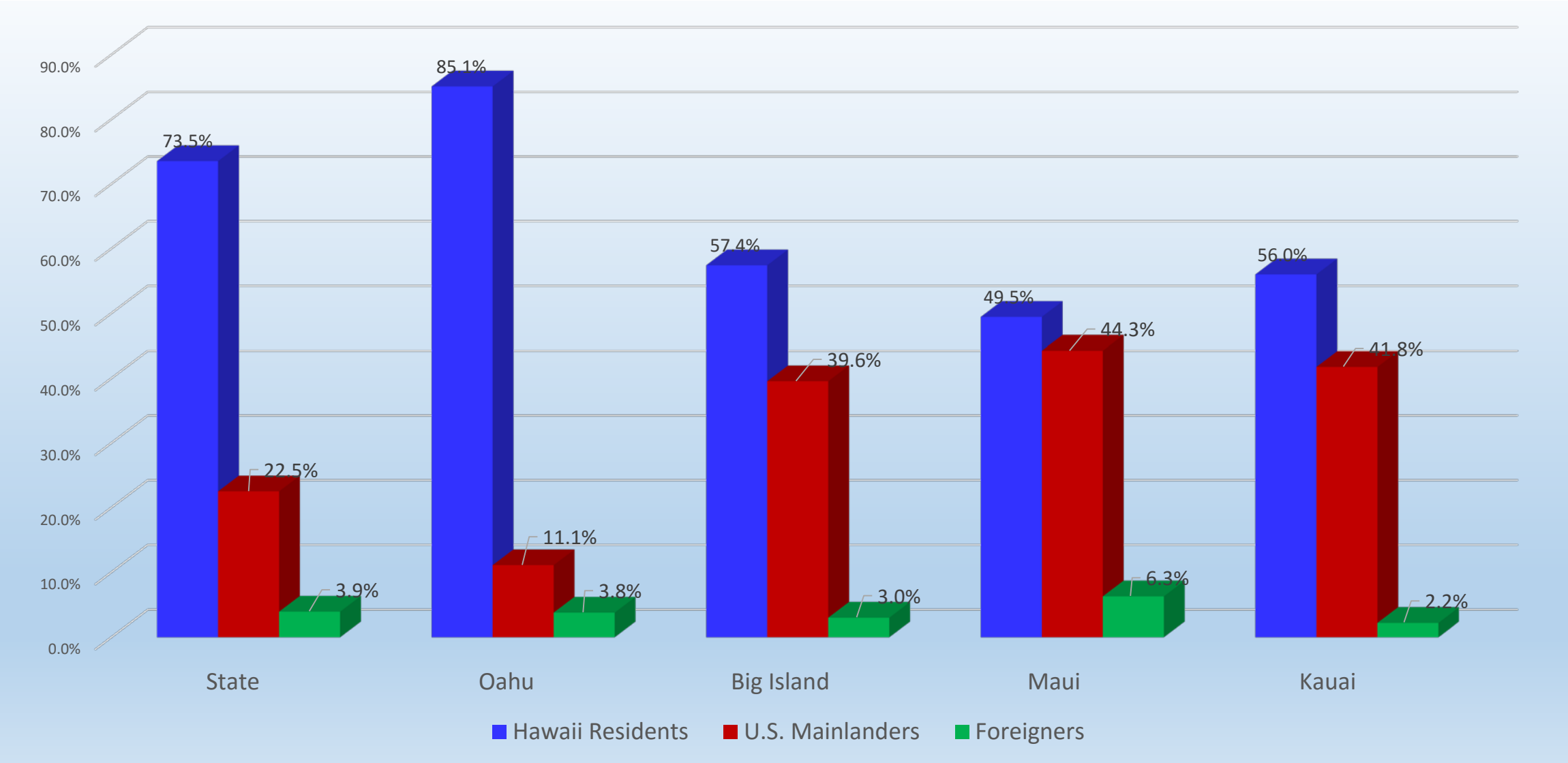
# Private Residential Units Authorized



2017 number is estimate

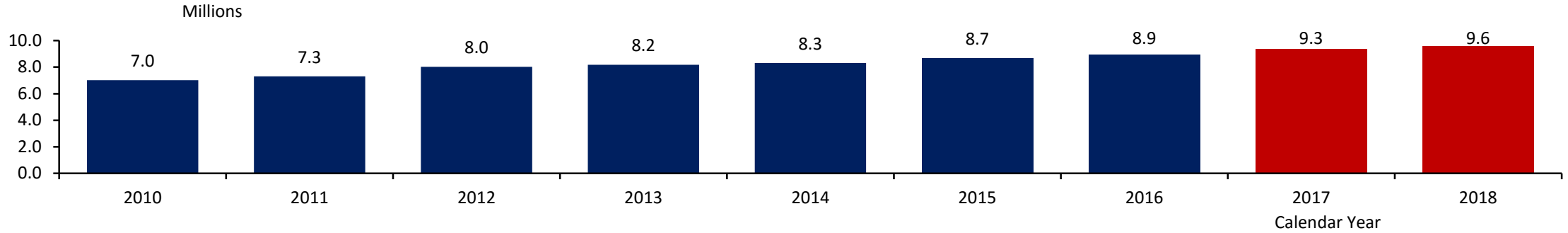
Source: County Building Departments and U.S. Census Bureau.

# Residential home sales by owner's place of residence: 1Q 2008 – 3Q 2017

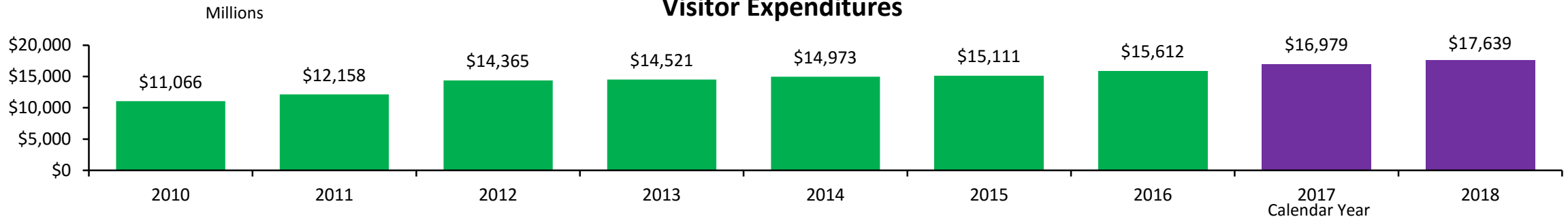


# Total Visitor Arrivals and Expenditures

## Visitor Arrivals



## Visitor Expenditures



Source: HTA and DBEDT



## New air seats added in 2018 (Through October) on scheduled flights

MARKET	STATE	% change
TOTAL	10,950,717	8.8
US WEST	6,782,922	11.5
US EAST	939,893	11.9
JAPAN	1,629,710	-2.7
CANADA	362,184	2.0
OTHER ASIA	526,172	13.6
OCEANIA	450,123	12.2
OTHER	259,713	6.5

Source: Hawaii Tourism Authority

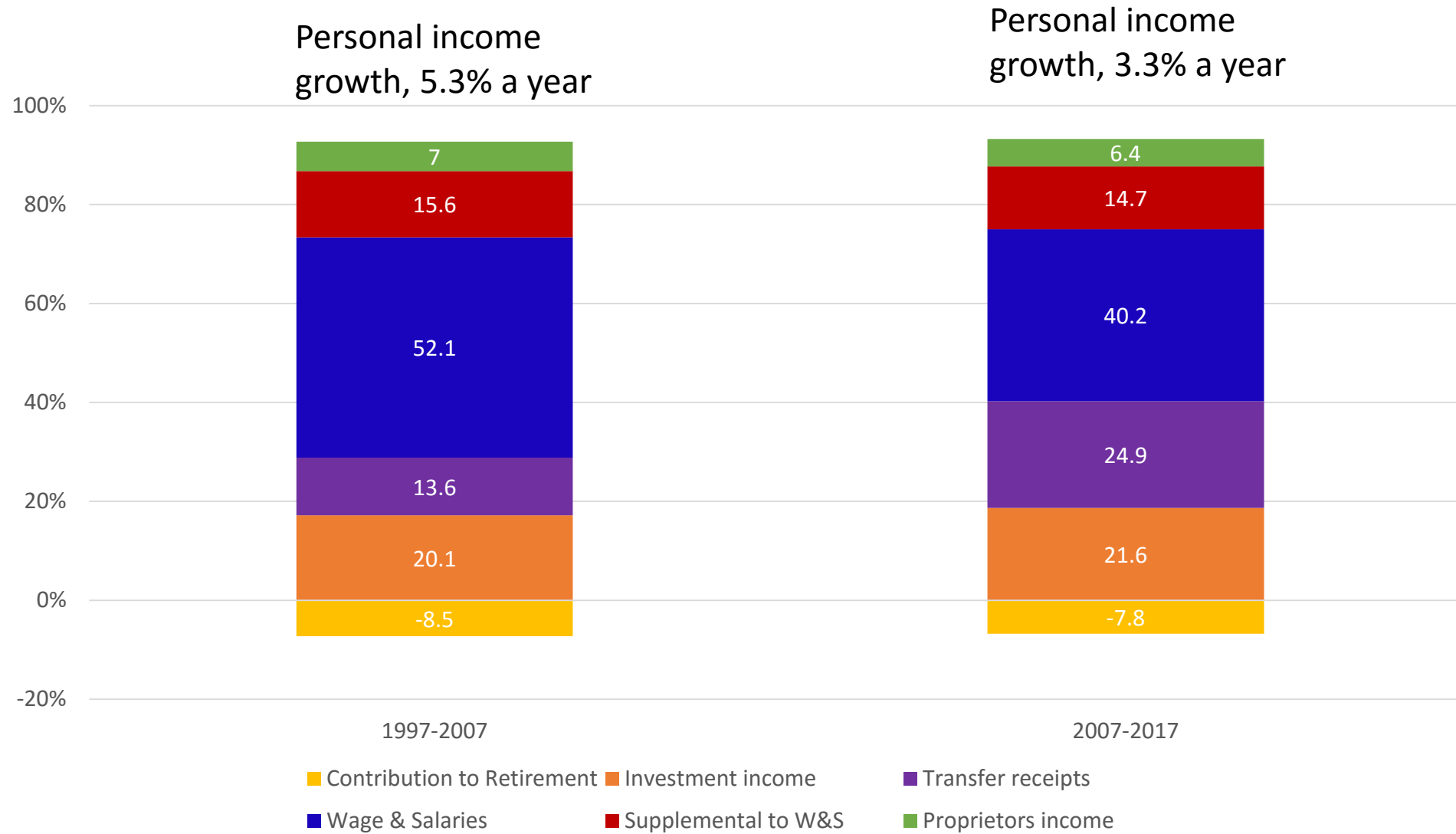
## Direct flights to the neighbor islands are expected to increased by more than 22%

Airport	2017 J-O Seats	2018 J-O Seats	% change
TOTAL	10,060,599	10,950,717	8.8
Honolulu	6,688,199	6,807,384	1.8
Kahului	1,920,319	2,131,845	11.0
Lihue	617,600	866,908	40.4
Hilo	39,276	50,477	28.5
Kona	795,205	1,094,103	37.6

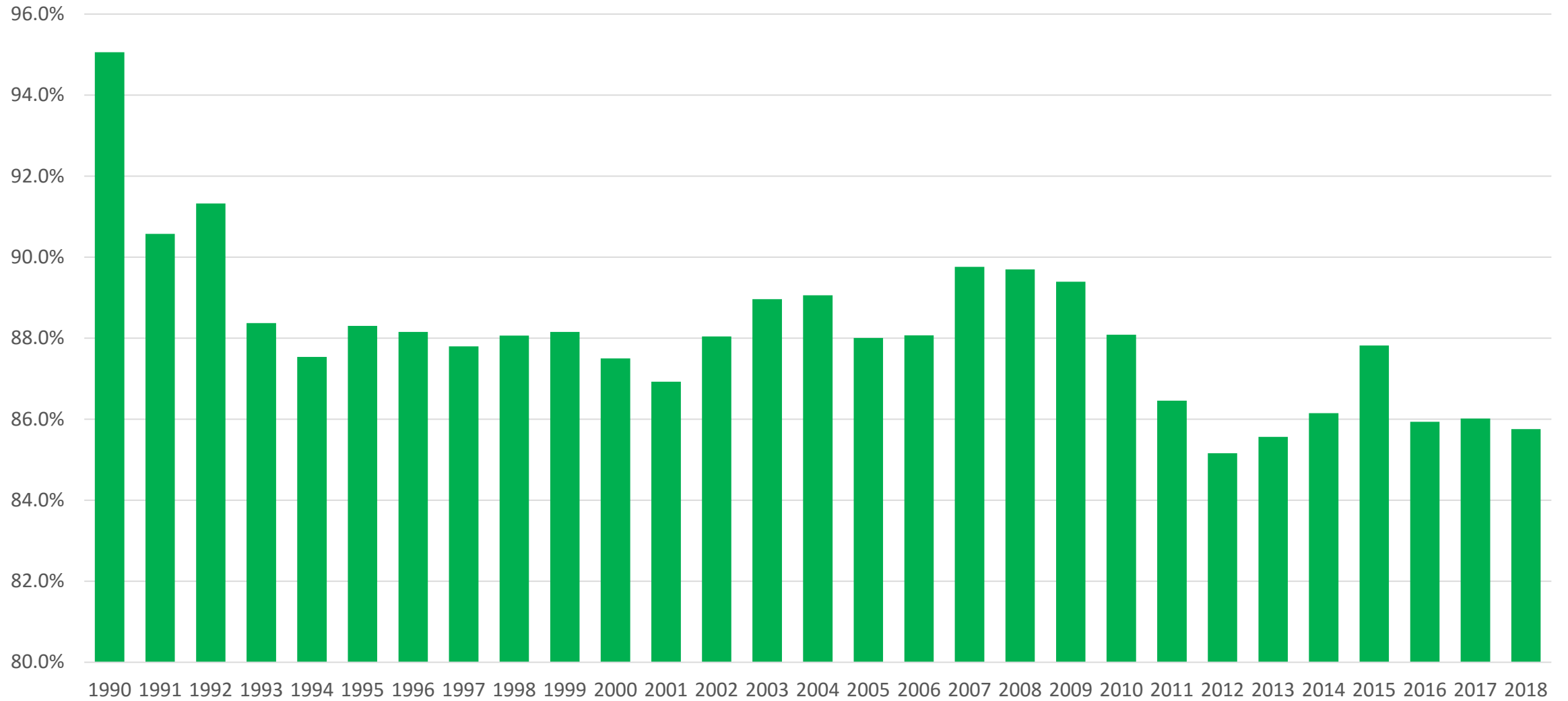
\*Through October.

Source: Hawaii Tourism Authority

# Personal transfer receipts contributes more to personal income growth



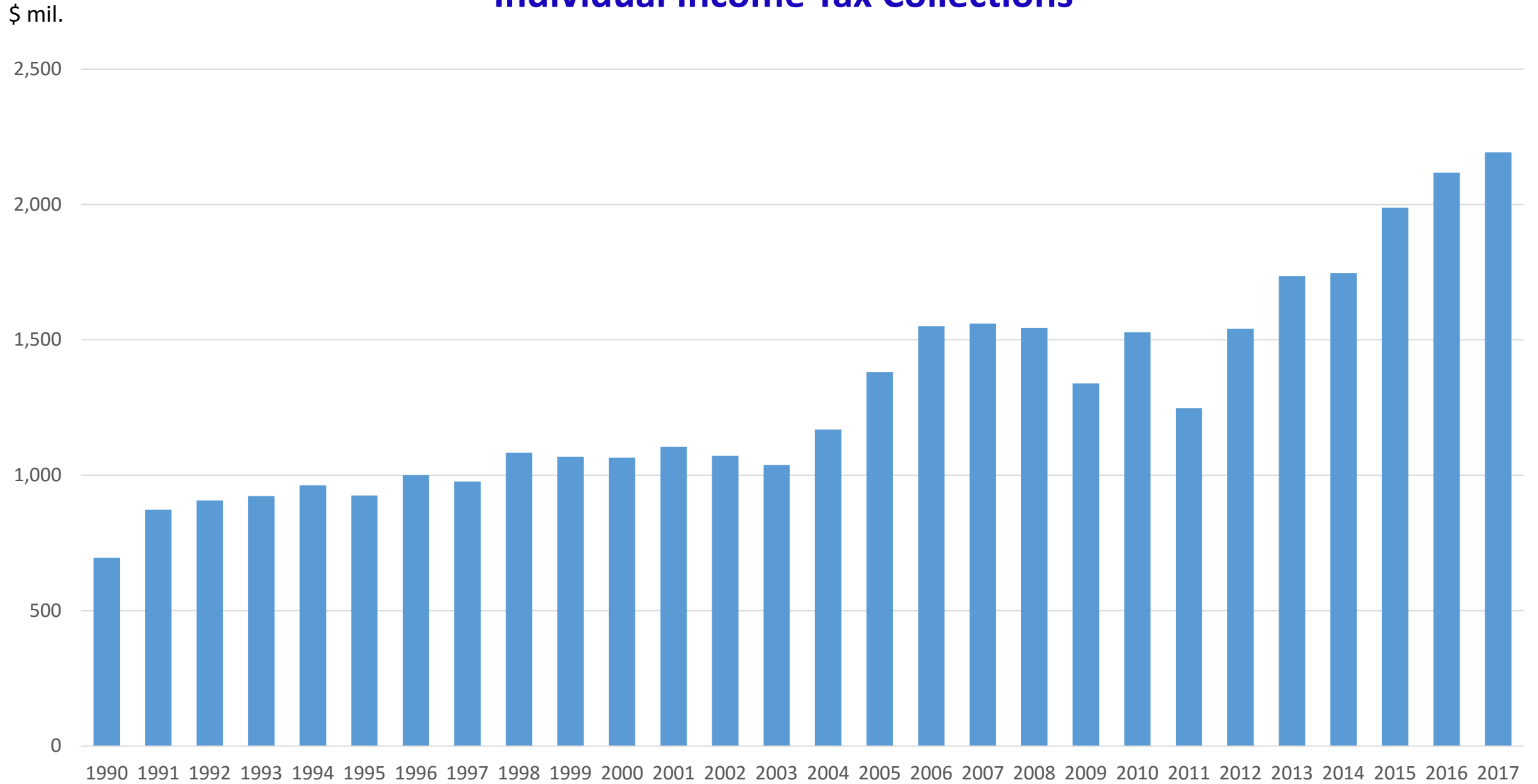
# GET and individual income tax share in general fund tax revenues



Fiscal Year

Source: Hawaii Department of Taxation

# Individual Income Tax Collections

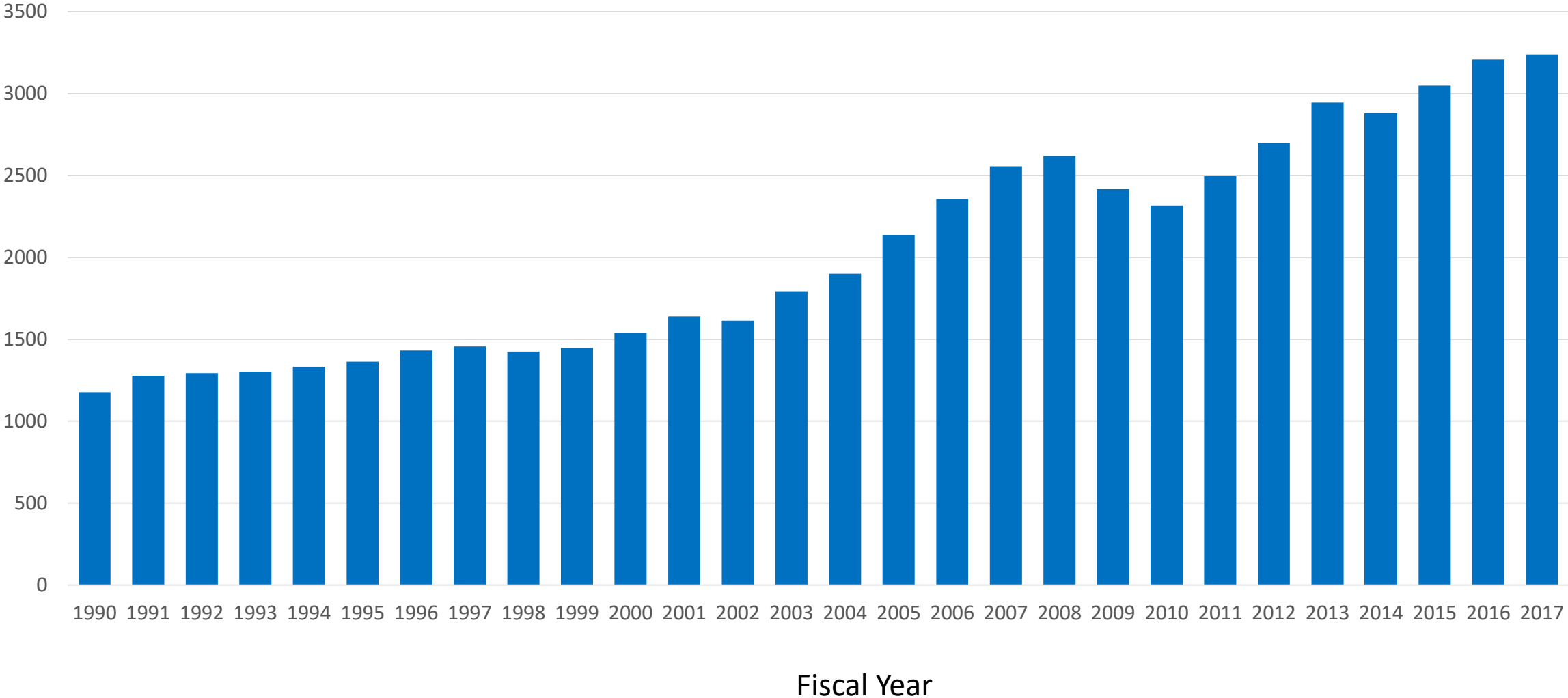


Source: Hawaii Department of Taxation

Fiscal Year

# General Excise Tax Collections

\$ mil.

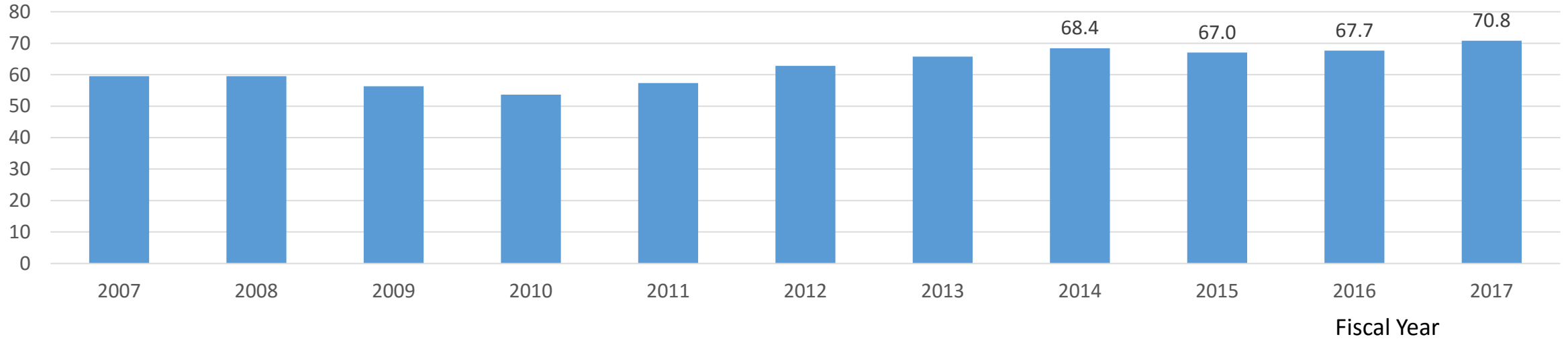


Source: Hawaii Department of Taxation

# Tax base relatively flat

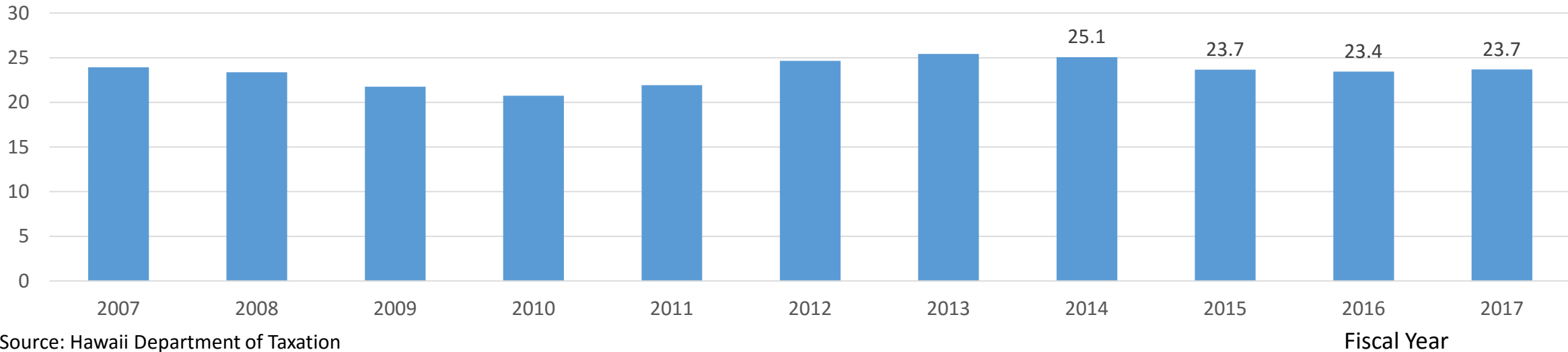
\$ bil.

all 4% GET base



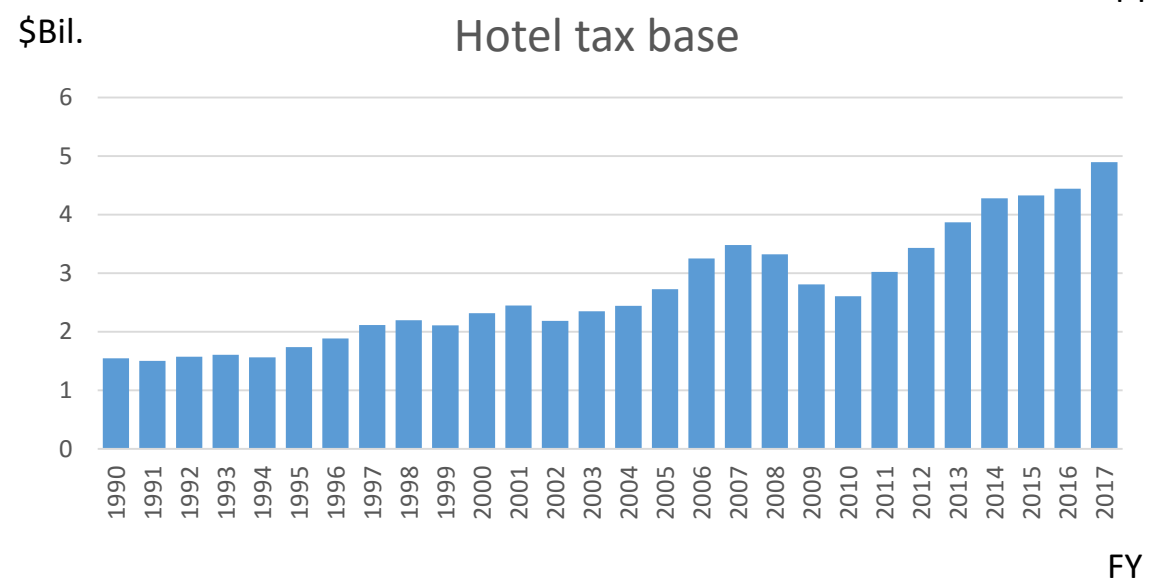
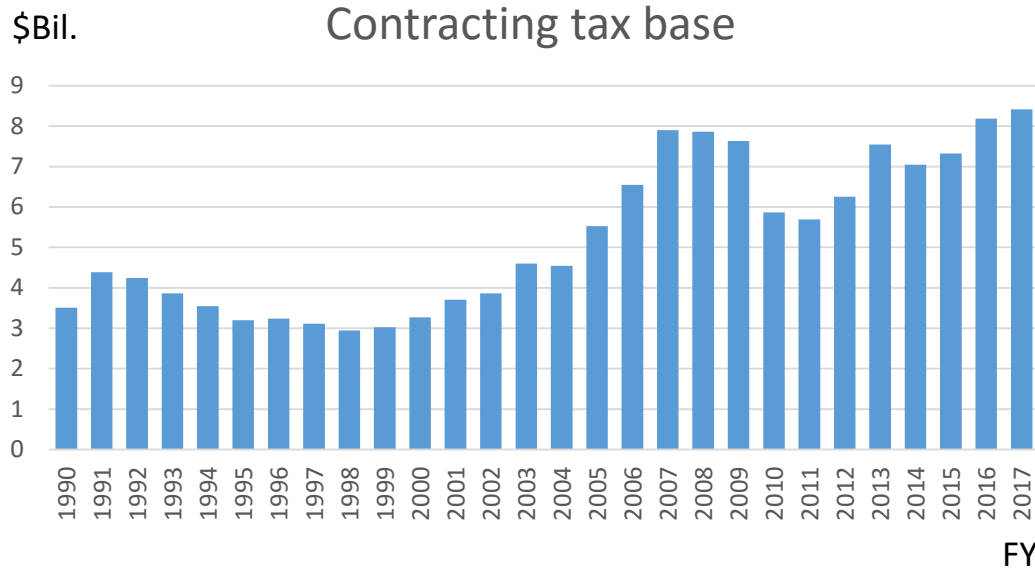
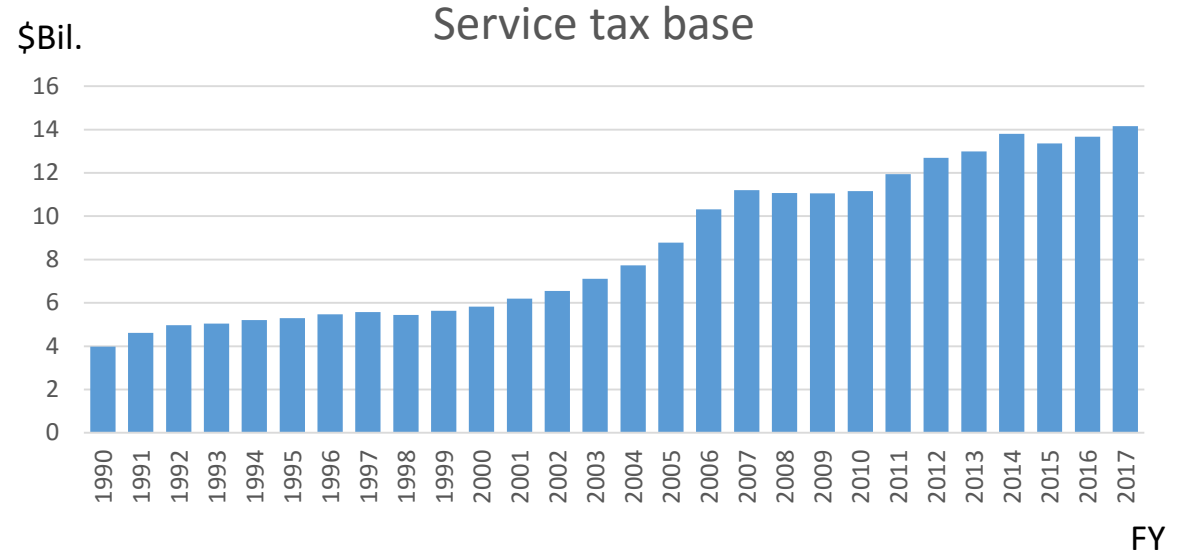
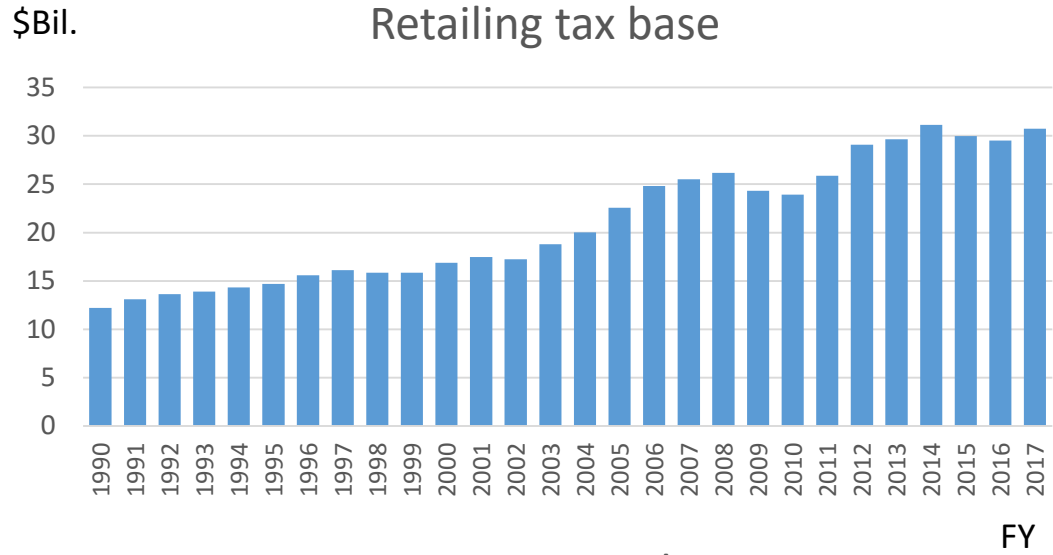
\$ bil.

All ½% GET base



Source: Hawaii Department of Taxation

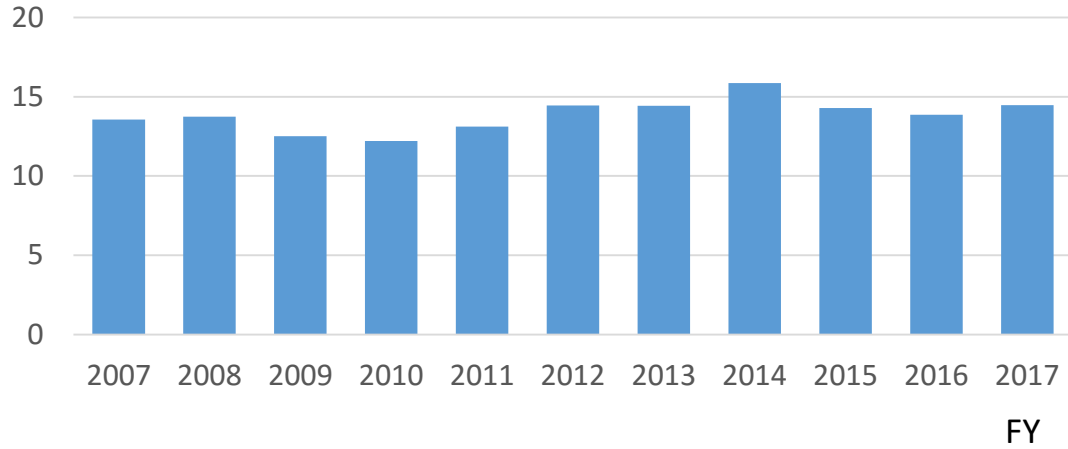
# Retailing tax base flat



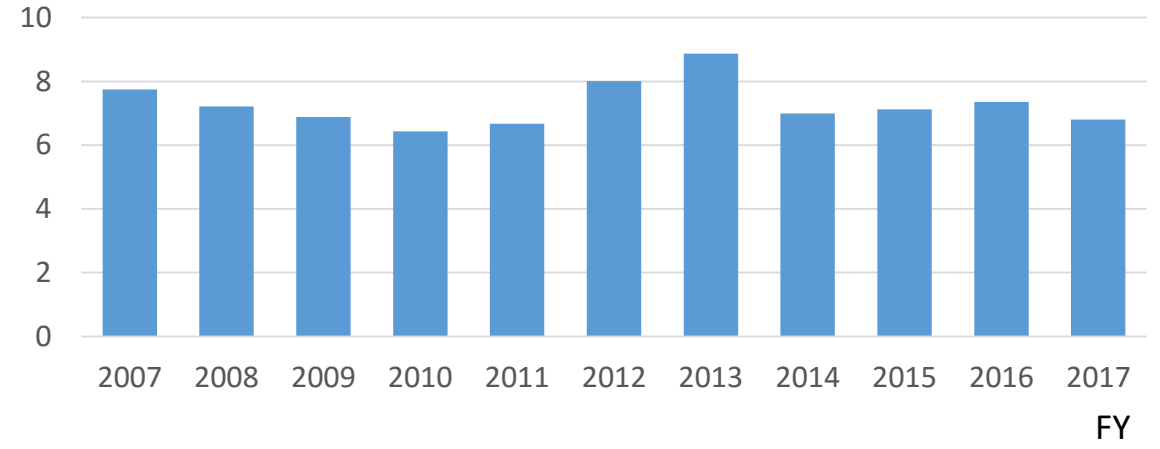


# ½% GET base either flat or declining in recent years

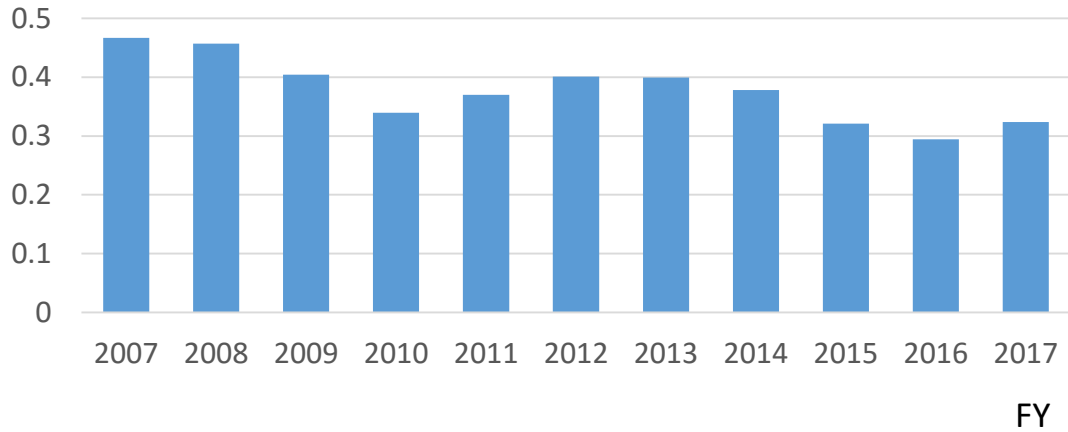
## Wholesaling tax base



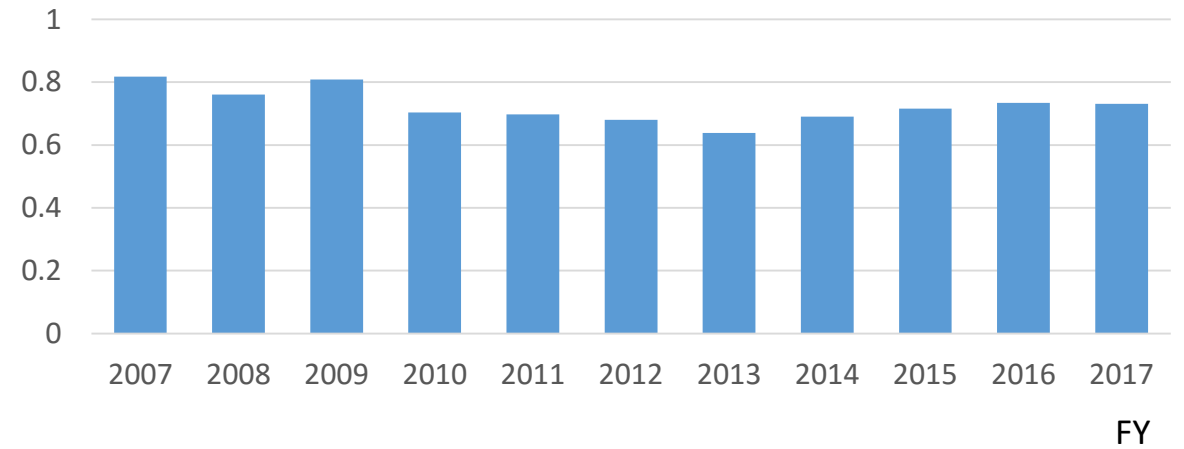
## Use ½% tax base



## Producing tax base



## Manufacturing tax base





# UHERO

THE ECONOMIC RESEARCH ORGANIZATION  
AT THE UNIVERSITY OF HAWAII

**Celebrating Twenty Years of Service to Hawaii**

## HAWAII'S LONG EXPANSION GETS GLOBAL LIFT

**DR. CARL BONHAM  
EXECUTIVE DIRECTOR, UHERO**

**Senate Ways & Means  
House Finance  
Pre Session Budget Briefing**

**January 2, 2018**

## National spotlight

- ▶ 8 year expansion continues

## Hawaii focus

- ▶ Another record year for arrivals, not quite for ssreal spending.
- ▶ Construction slowing, but
- ▶ “Housing Crisis” is an opportunity.

## Risks, risks, risks

- ▶ TMT, state/county tax and housing policy, housing gap, rail, ....
- ▶ Tax “reform” aka deficit enhancement, FED appointments, NAFTA renegotiation, geopolitical events, climate.

# US economic outlook 2018

## US and global economies have firmed

- ▶ US output growth uneven, but
- ▶ Nice pickup in Q3

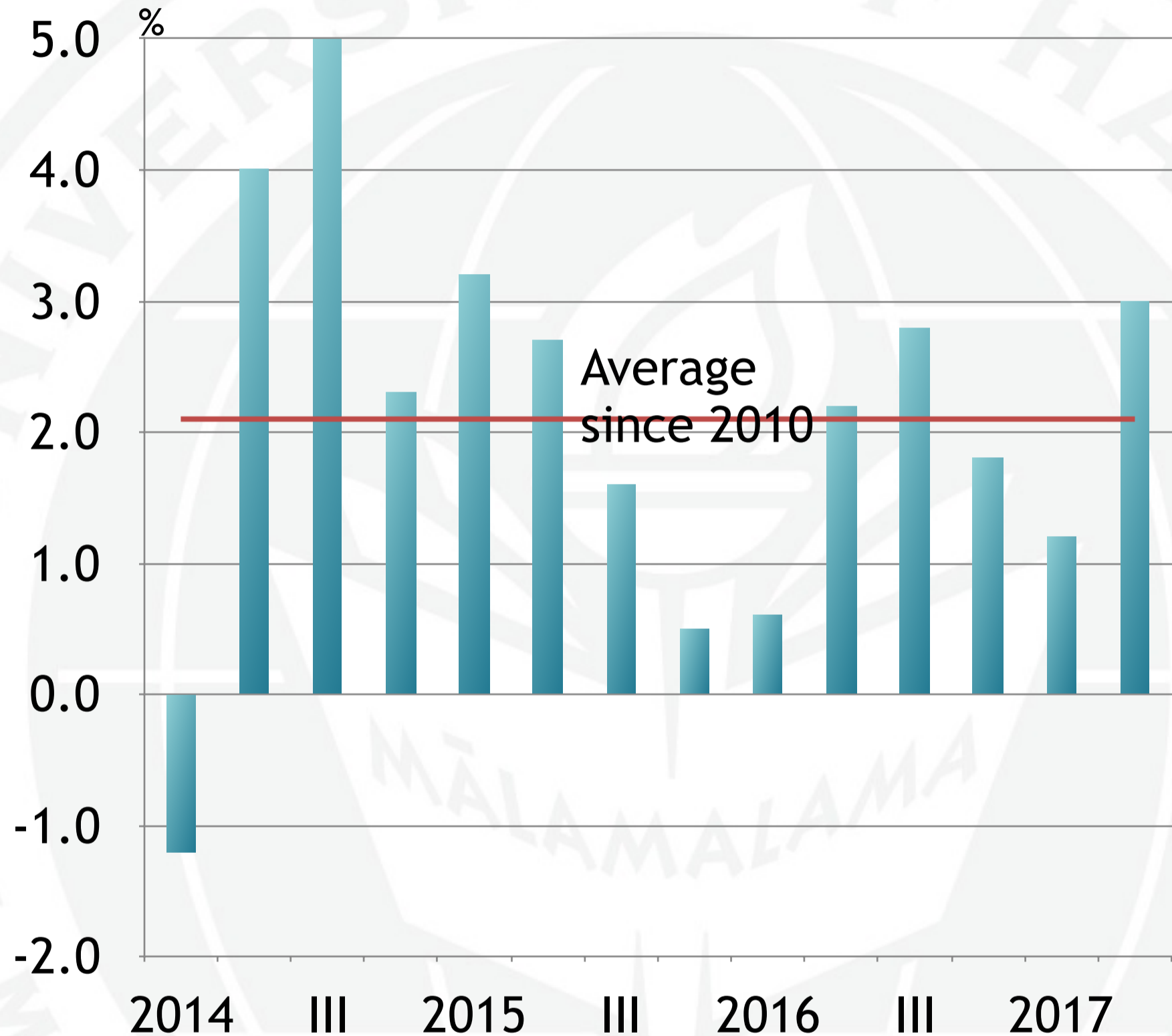
## 8 year expansion continues

- ▶ First upward revisions to global forecast since 2010

## Risks are greater than normal

- ▶ US fiscal policy
- ▶ Reaction of the Fed
- ▶ What's the tweet du jour?

## US real GDP growth



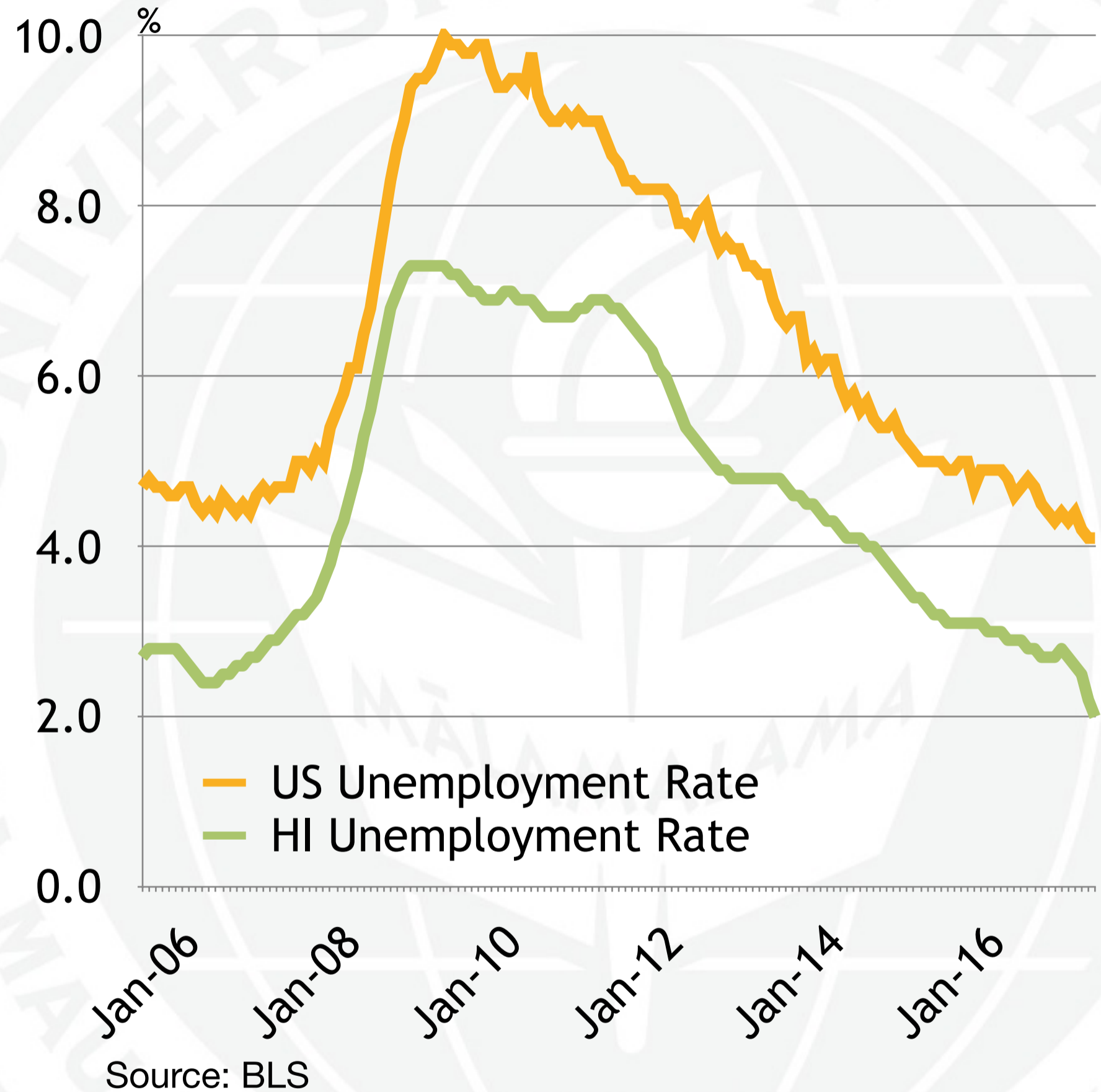
Source: BEA, UHERO

# Labor markets mostly healed

## Job creation fast enough to reduce unemployment

- ▶ Close to “Full employment” levels.
- ▶ Unemployment spells are shorter
- ▶ Fewer discouraged and involuntary part-time workers

## Unemployment Rates: US vs HI

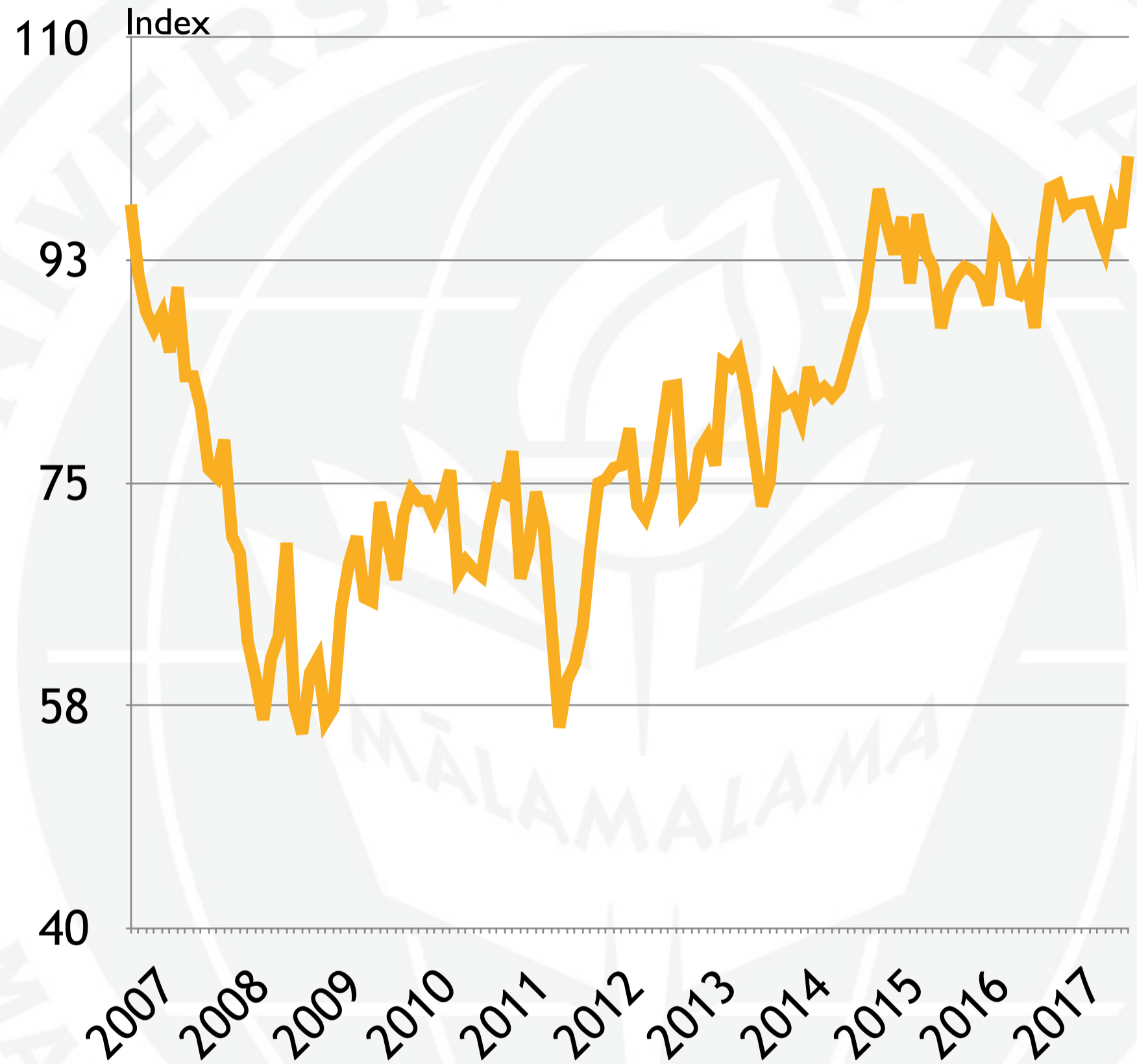


# Consumers remain confident

## Consumer confidence remains healthy

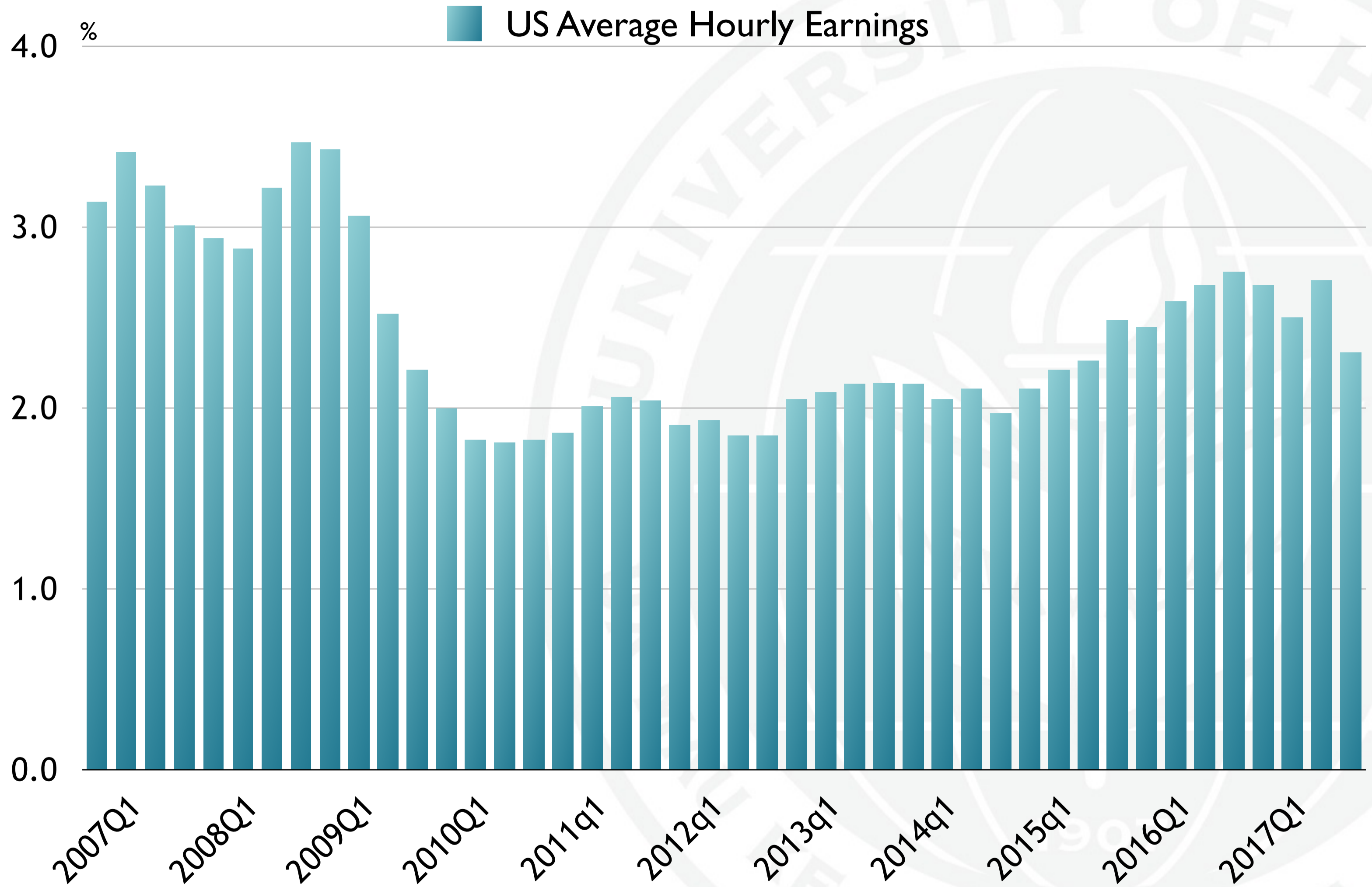
- ▶ Job improvements
- ▶ Asset gains, especially home values
- ▶ Modestly rising wages
- ▶ Relatively flat gasoline prices

## Reuters Univ. Michigan Consumer Sentiment



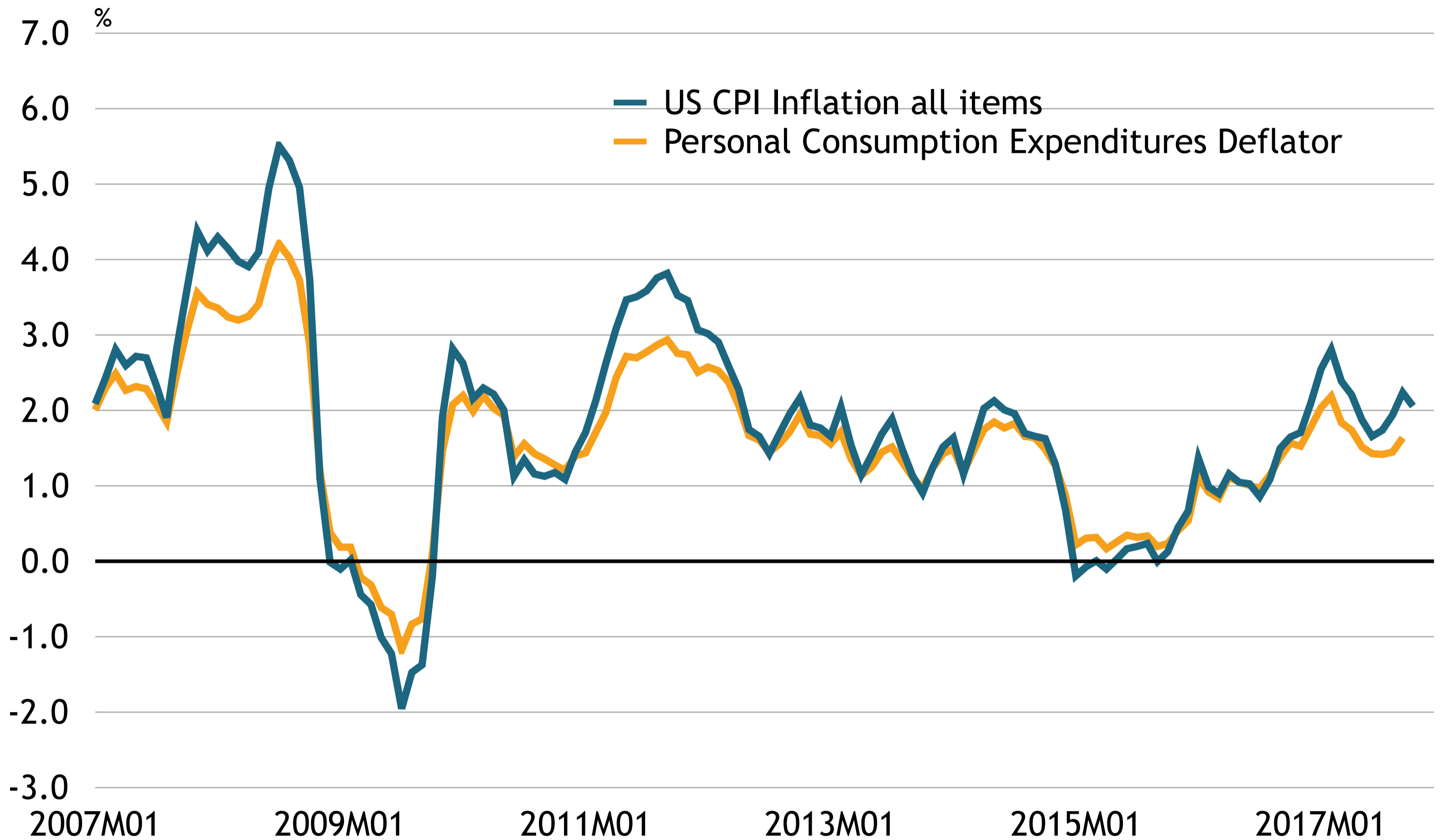
Source: BLS

# Finally some wage gains



Source: BLS

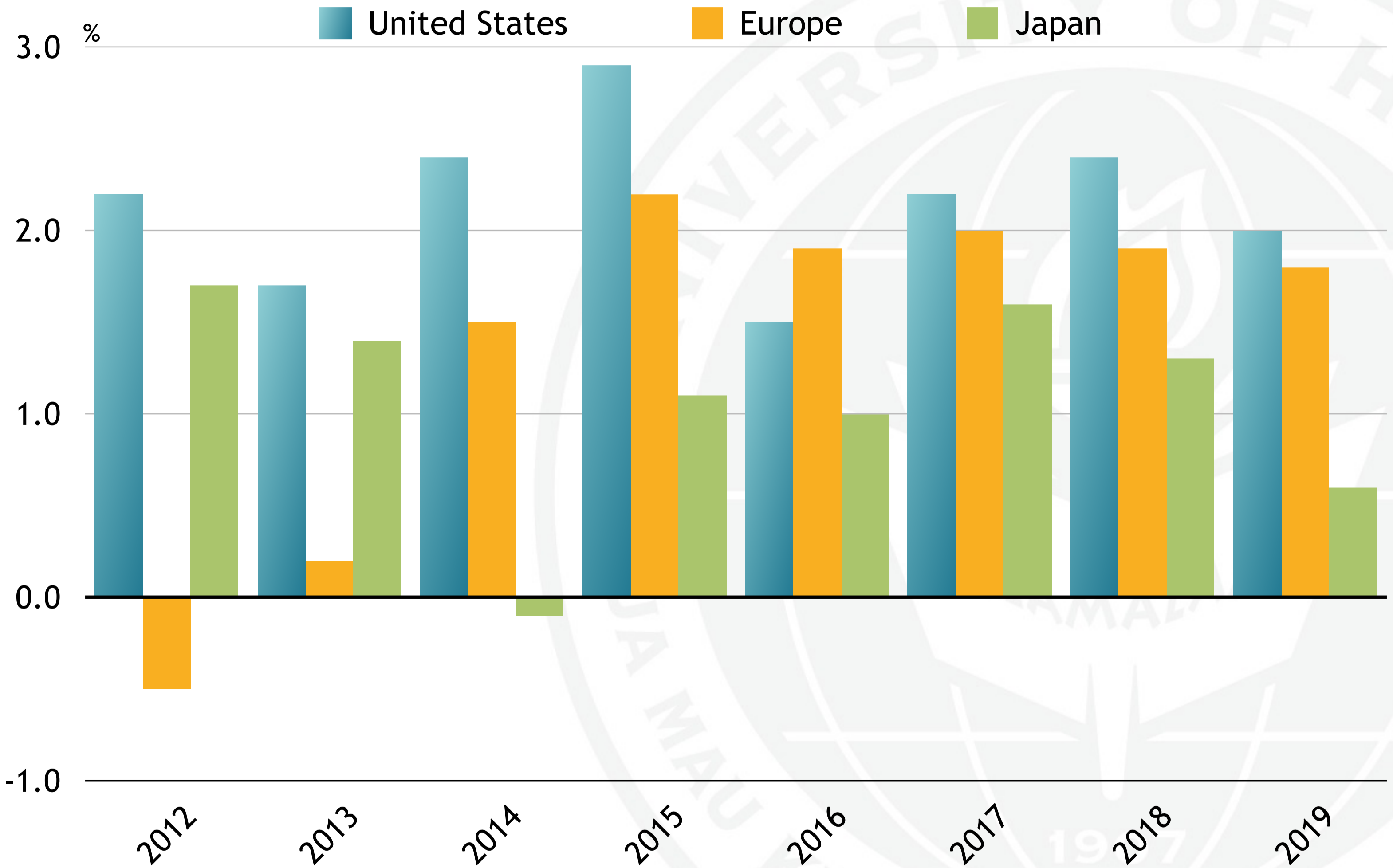
# Low inflation should imply slower FED response



Source: Federal Reserve Bank of St. Louis



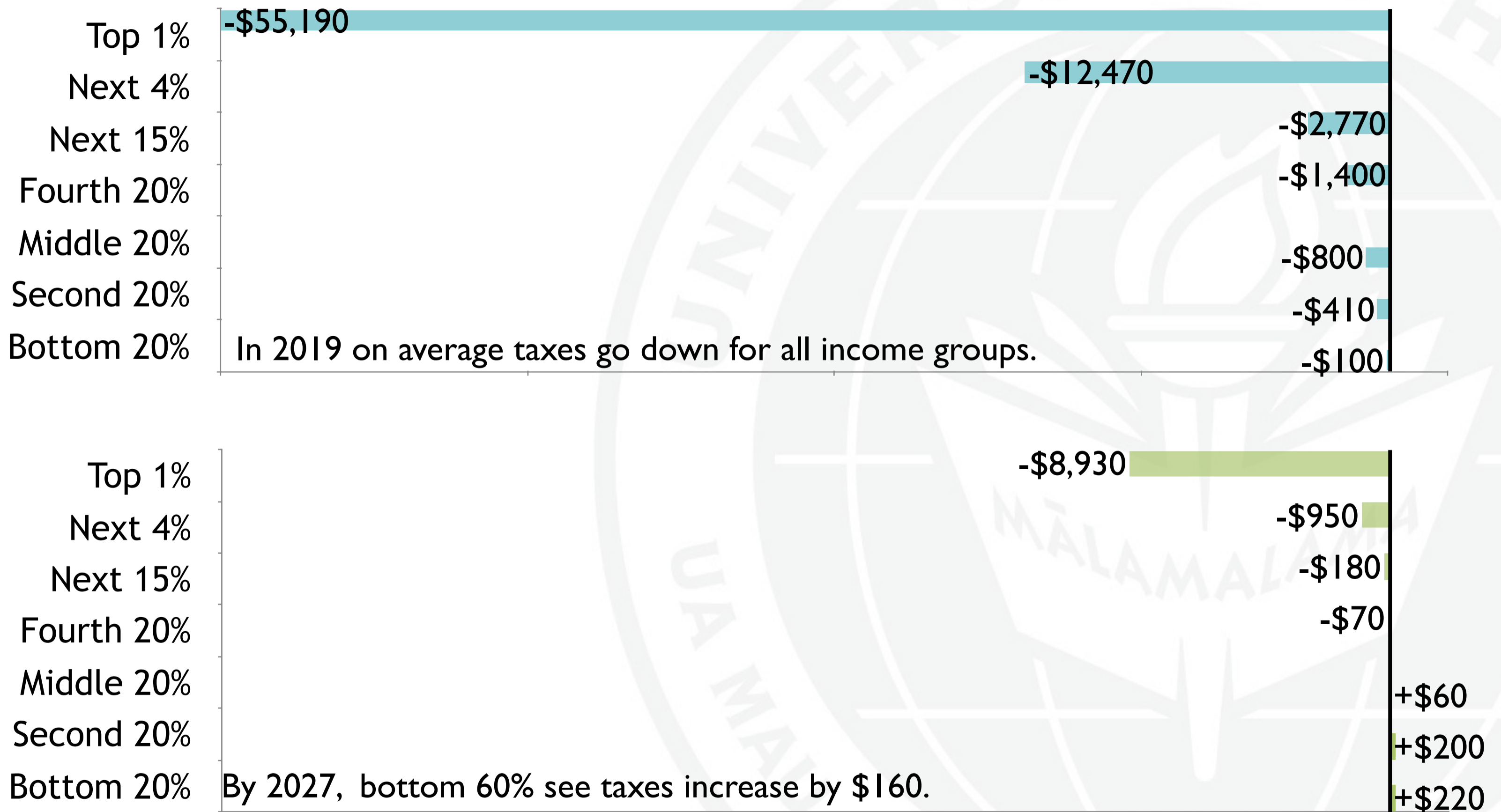
# Outlook: US still strongest developed region



Source: UHERO

# Risks: deficit enhancement act

## average tax change for US tax payers from Trump Tax Bill



Source: Institute on Taxation and Economic Policy [www.ITEP.org](http://www.ITEP.org)

# Risks: deficit enhancement act

## Distributional effects:

- ▶ 2019: 53,310 Hawaii tax payers see a tax increase.
- ▶ 2027: 195,600 see a tax increase.
- ▶ Higher stock prices, maybe lower home prices.

## Penn-Wharton Budget Model estimates

- ▶ Debt increase (including debt service cost)  
\$1.9T to \$2.2T
- ▶ GDP in 2027 with Tax “Reform” vs Current Policy  
+.6% to +1.1%

## Goal is to raise corporate investment

- ▶ Where do the investment \$ come from?
- ▶ US net savings rate is just 1.8% of national income.
- ▶ Borrowing from abroad will fund bulk of any increase in investment.
  - Increased interest rates & value of the \$
  - US manufacturing (and Hawaii) become less competitive
  - Trade deficit balloons.

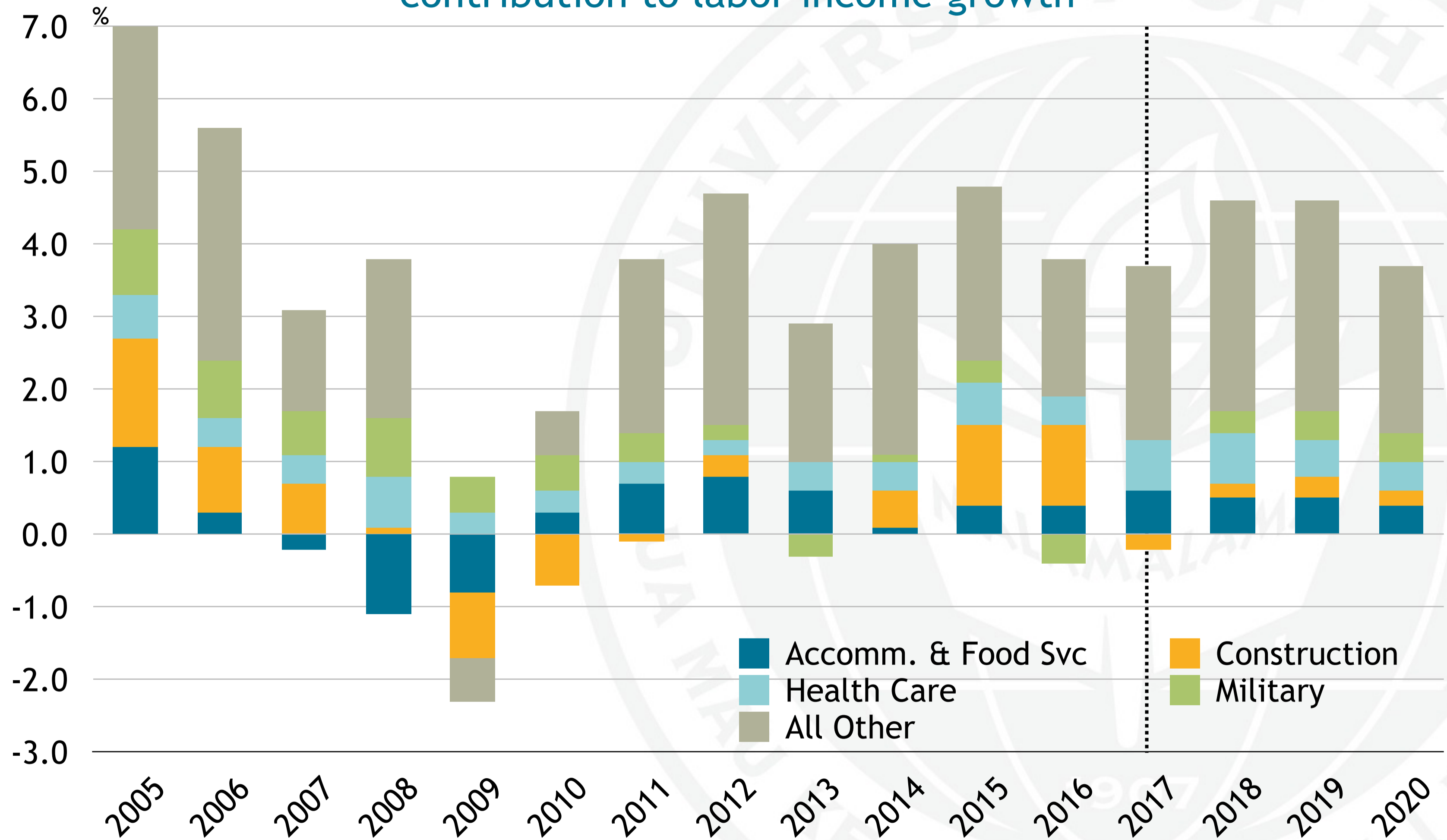
# Arrivals continue surprisingly strong growth



Source: HTA, BLS, UHERO. Nominal visitor spending deflated using Honolulu CPI.

# Construction now a drag on labor income

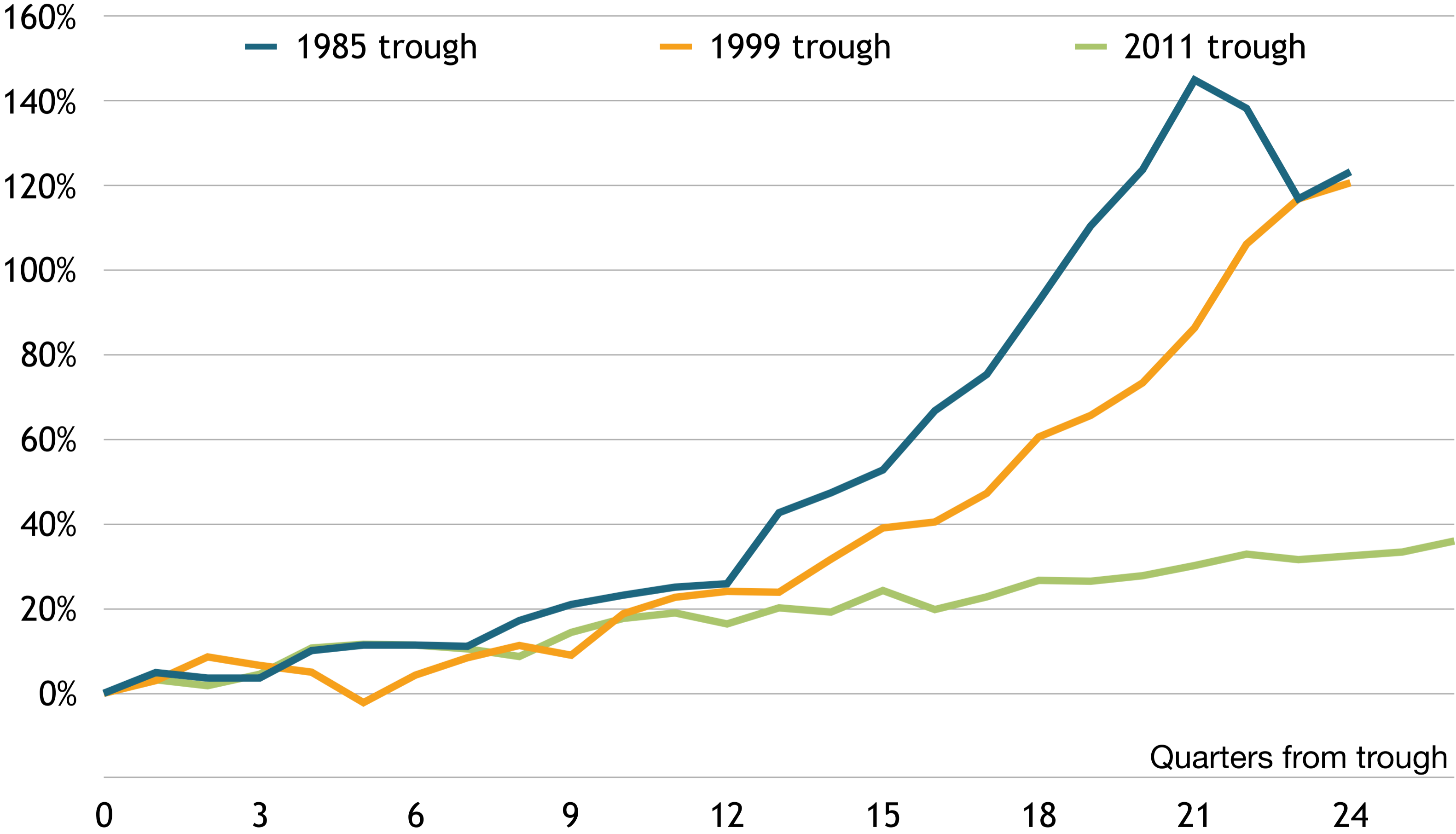
## contribution to labor income growth



Source: BEA, UHERO

# Home prices continue to rise, but much less than past cycles

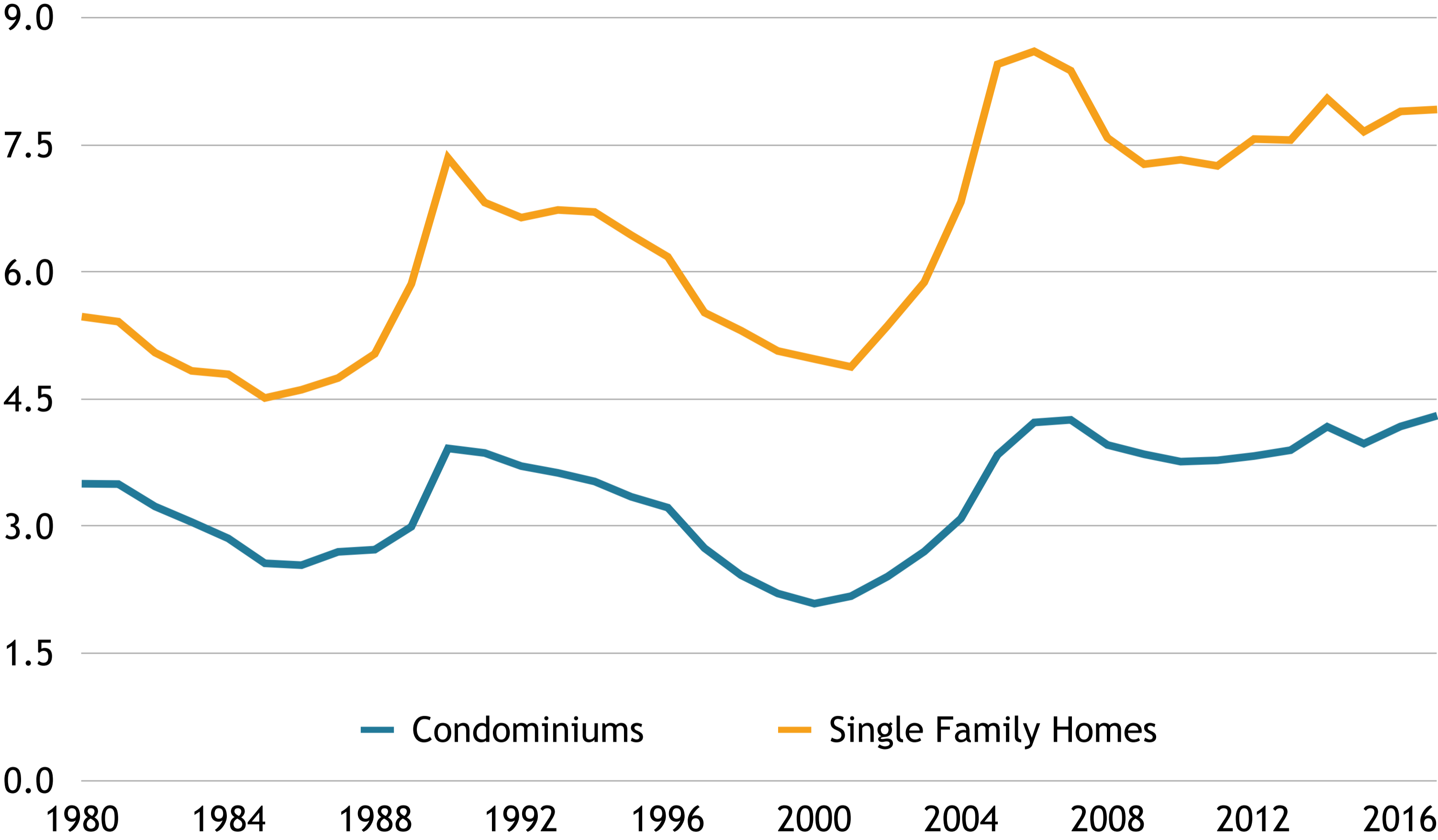
## Honolulu median resale price change from trough



Source: Honolulu Board of Realtors, UHERO

# Prices below peak

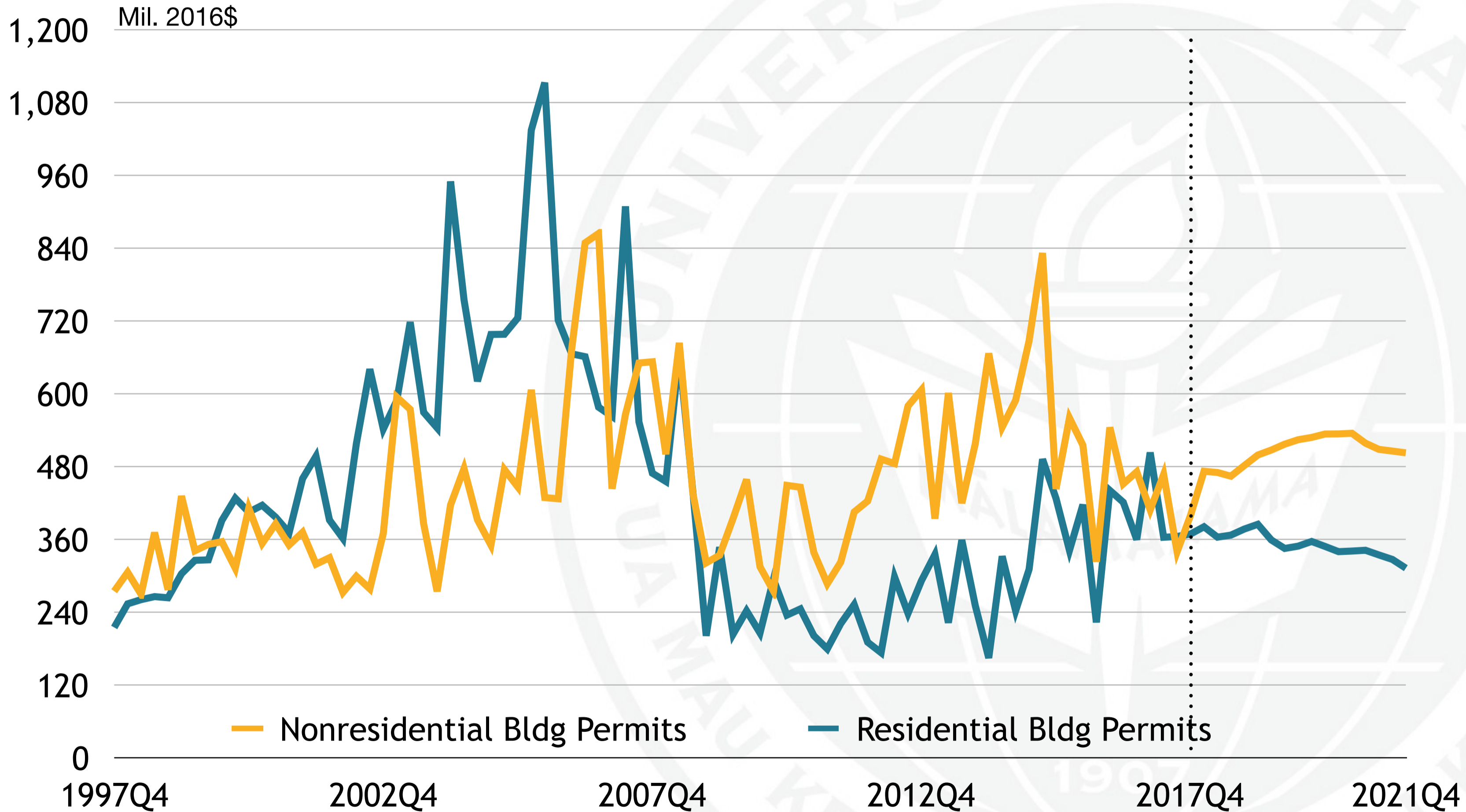
## Honolulu median resale price/median household income



Source: Honolulu Board of Realtors, US Census, UHERO

# So residential building still lags

## statewide real building permits

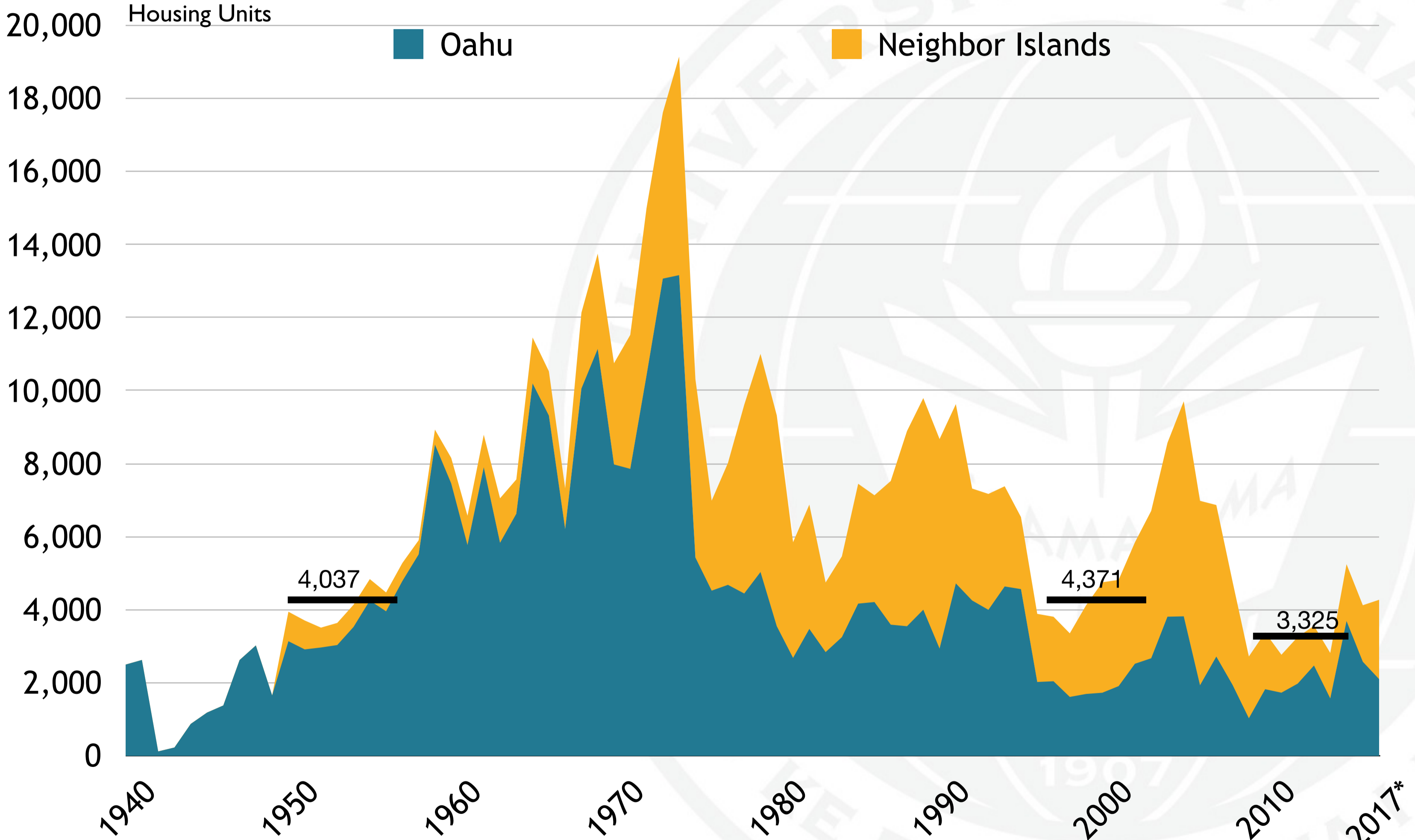


Source: DPP, DBEDT, UHERO



# Making the housing crisis an opportunity

## housing units authorized by permits

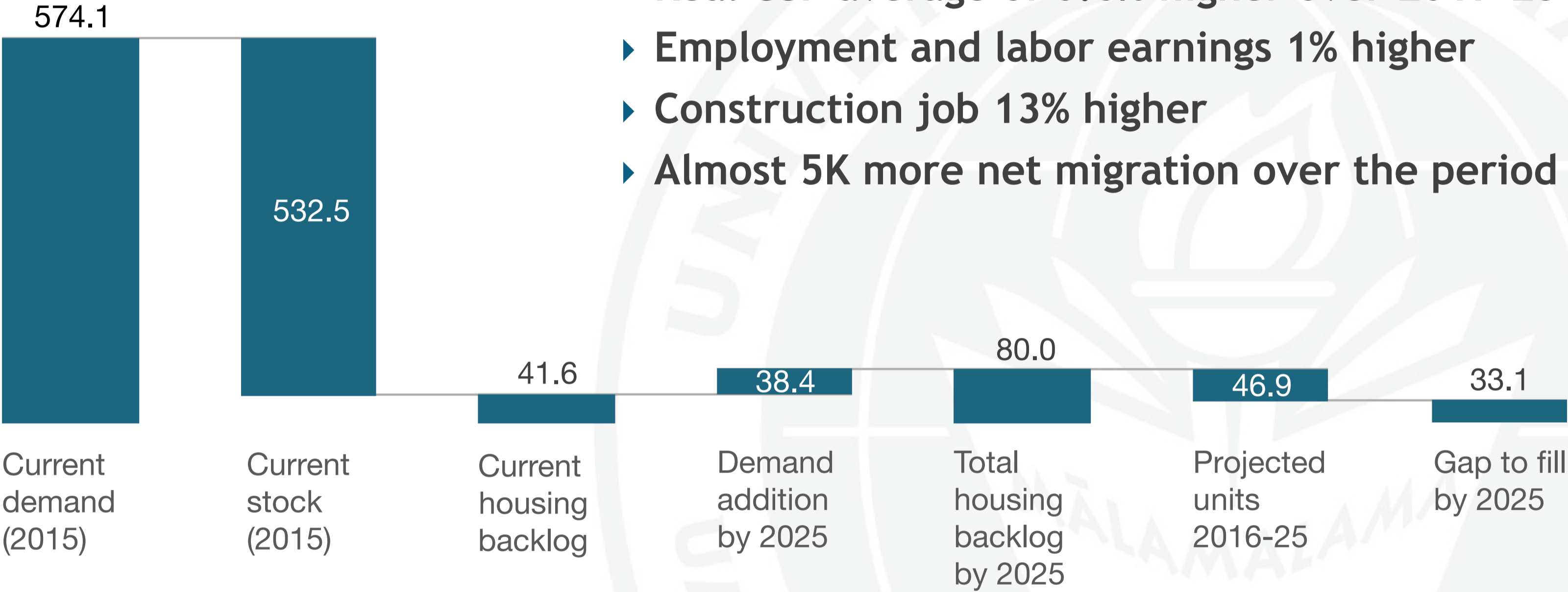


Source: Robert Schmidt, Historical Statistics of Hawaii, DBEDT, UHERO.

# Benefits to closing the housing gap

## Hawaii's housing supply gap

1,000 housing units



## Build an 33K additional housing units by 2025

- ▶ Real GSP average of 0.6% higher over 2017-25
- ▶ Employment and labor earnings 1% higher
- ▶ Construction job 13% higher
- ▶ Almost 5K more net migration over the period

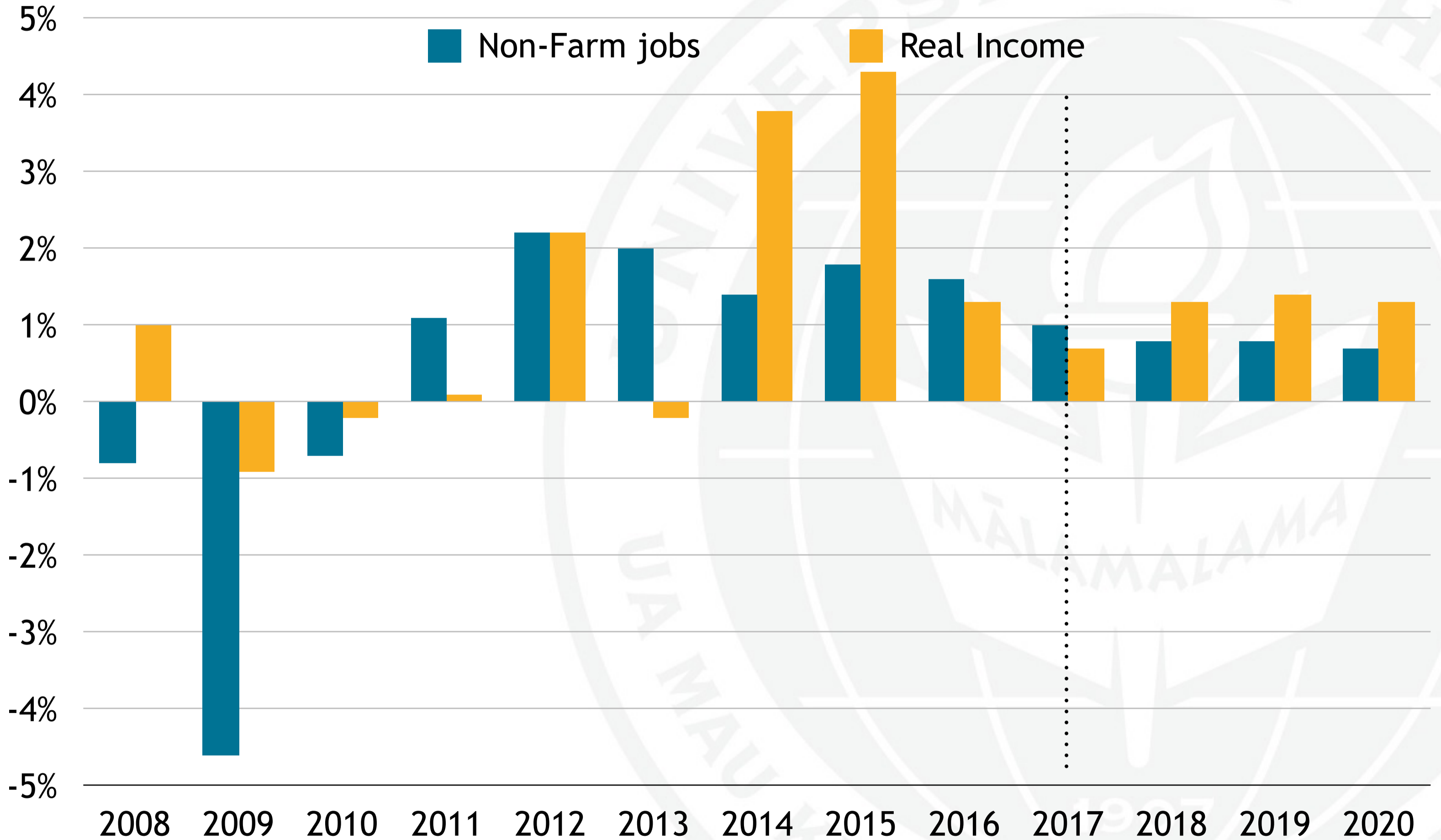
Number of housing units needed in Hawaii to supply the market at the same per capita rate as New Jersey (i.e., 401 units per thousand people)

Additional units needed to supply Hawaii's population growth through 2025 (at the same per capita rate as New Jersey)

Source: US Census Bureau, UHERO, ht McKinsey Global Institute.

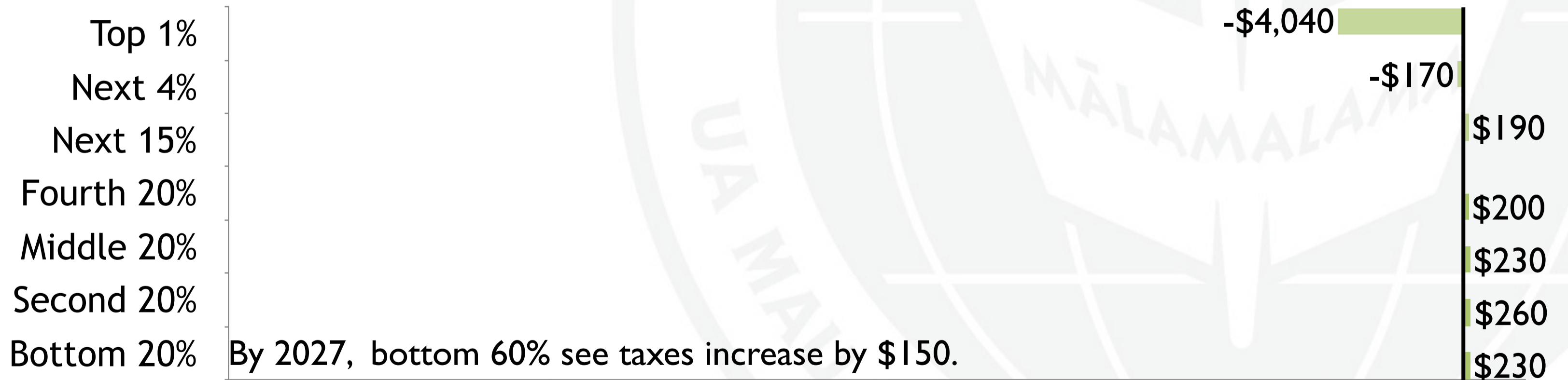
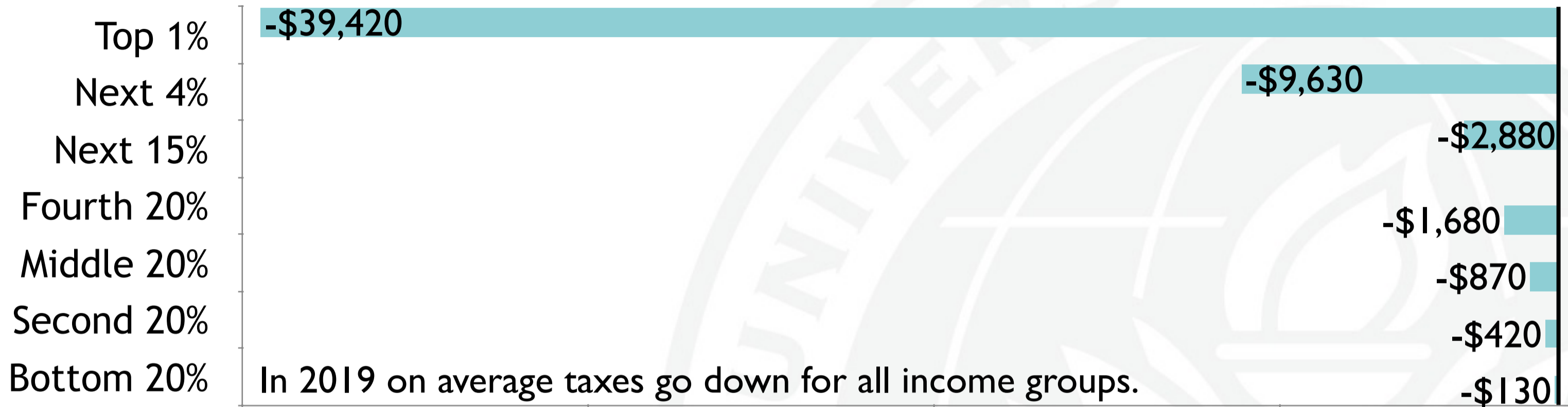
# Slow growth is better than the alternative

## Hawaii job and income forecasts



Source: BLS, BEA, UHERO

## average tax change for HI tax payers Trump Tax Cuts



Source: Institute on Taxation and Economic Policy [www.ITEP.org](http://www.ITEP.org)



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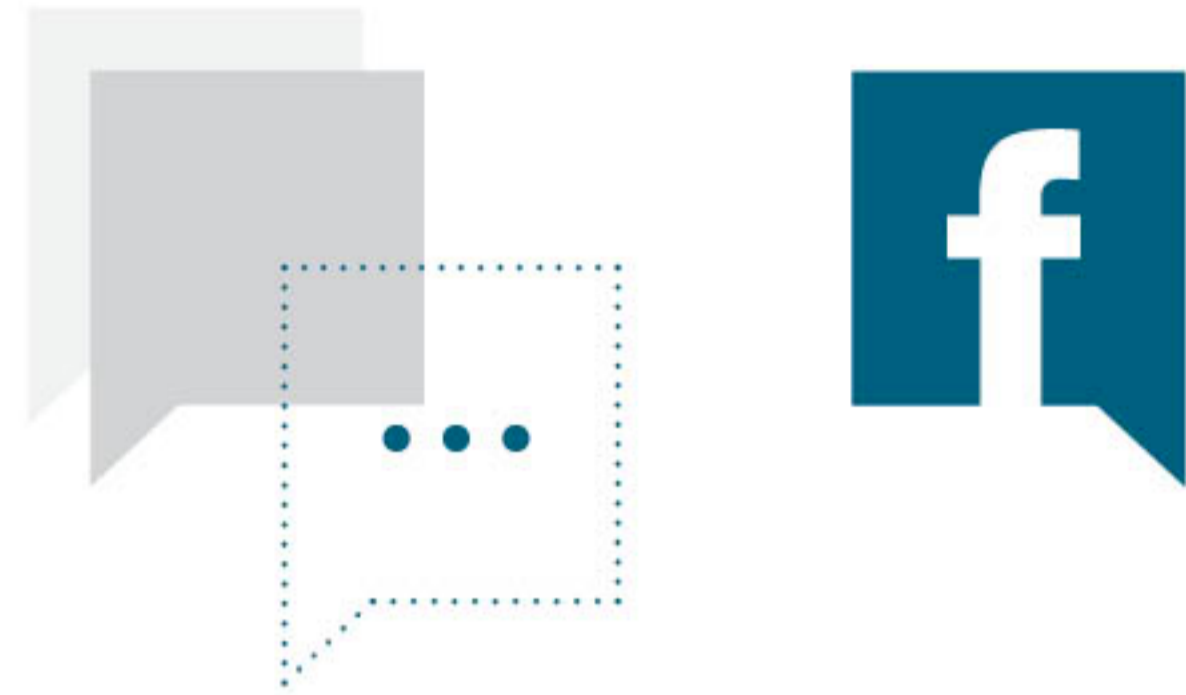
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## UHERO FORUM

RESEARCH DRIVEN DIALOGUE

The Inaugural UHERO Forum, held on October 29, was a success with more than 160 people in attendance. Critical issues facing the State of Hawai'i were highlighted, including energy policy, economic development, and sustainability.

VIEW PROGRAM

### LATEST FORECAST

#### Developing Countries Buoy Asian Growth

December 7, 2012

[Read the Public Summary](#)

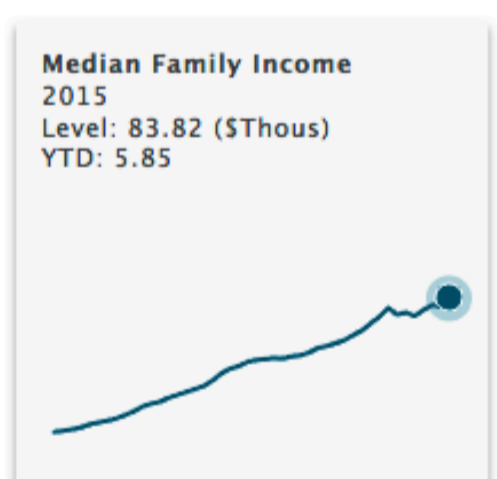
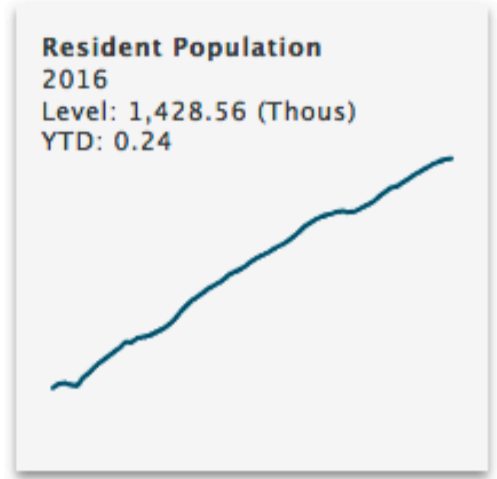
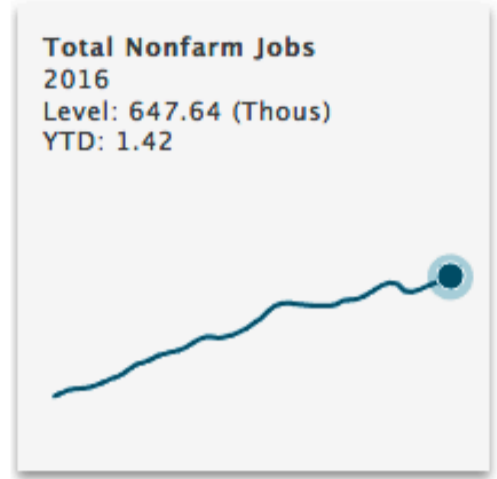


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## At a Glance

State of Hawaii | Annual | Table View

- Employment
- Visitor Industry
- Income
- Construction & Housing
- External Indicators
- Population
- Prices
- State Revenue & Expenditure
- County Revenue & Expenditures





# MAHALO

January 2, 2018

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